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INSURANCE OFFICE ORGANISATION, MANAGEMENT AND ACCOUNTS.

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INSURANCE OFFICE ORGANISATION, MANAGEMENT, AND ACCOUNTS.

BY

T. E. YOUNG, B.A., F.R.A.S.,

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AND

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PREFATORY NOTE.

THIS volume is intended primarily to form a thoroughly practical guide to the Organisation, Management, and Method of Account-keeping appropriate to Insurance Companies. Its aim, however, it will be observed, is implicitly more extensive, since the principles and practices suggested and explained are capable of application to all commercial undertakings.

No Treatise with a similar scope and object appears yet to have been issued, and the publishers and authors consequently believe that the volume supplies a definite and general need.

Although the authorship of the different chapters is indicated under the several titles for convenience, the volume has been planned upon a uniform and consistent principle.

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CHAPTER I.

The General Principles of Organisation.

By T. E. Young.

It is proposed to expound, in brief compass, the leading elements of constructive and administrative action which relate to every description of industry, and at the same time to apply them to the specialized system of insurance organisation.

A scheme of organisation necessarily involves a clear conception of the End to be attained, and the thoughtful and methodical devising of the Means by which attainment can adequately, promptly, and easily be secured.

In commercial undertakings the end in contemplation is sufficiently definite—the acquisition of profit (implying of necessity the prior creation of adequate reserves for outstanding liabilities, or obviously the profit would be partially fictitious); but the means of accomplishment are frequently defective so that the assigned course,—the acquisition of profit at the smallest expenditure of labour, cost, and time,—tends to become devious and void of effective concentration. And this condition,—the least exertion of energy consistent with the most direct mode of agency,—constitutes a system of organisation which should combine simplicity of construction, facility of execution, organic connection in the mutual dependence of part upon part, and precise appropriateness to the nature of the enterprise pursued. It is, however, here to be observed that although the genuine end be distinctly conceived as a whole, obscurity is not infrequently (and unconsciously) introduced in consequence of the intrusion of misleading analogies with other but inappropriate modes of accomplishment, quite independently of errors in organising the administrative means. In life assurance, for example, a largely increasing extent of new business may be accepted as synonymous or virtually synonymous with a necessarily augmenting profit, from incongruous analogies derived from other forms of business such as Fire and Marine Insurance, whereas experience has proved that, owing to the specialized character of life assurance transactions compared with the nature of the obligations just mentioned, a moderate amount of

new business may in many instances afford the more conclusive index to enhanced results in surplus.

Since exactness of definition rests at the foundation of all accuracy of reasoning and correlative practice, it will be useful to point out that the term "organisation" is derived from a Greek word (which again is formed from an obsolete verb in the same language, "to do work") with the primary meaning of an "instrument" or "tool," and then, by subsequent expansion of significance, expresses the finished product or work itself.

The same conception is embodied in the term "method," indicating a "path of transit" from stage to stage, and consequently involving the notion of unity with progress, or a systematic and ordered advance under the domination of some ruling and guiding conception, both in relation to the contemplated end and the mode of its attainment.

An organic body, or organism, then, is a structure composed of distinct and dissimilar parts, but so combined and interrelated that an essential interdependence exists and mediates between the whole; their several functions or specialized activities are co-ordinated in harmony of working as alternate means and ends; and the entire organism is pervaded and actuated by a common life and purpose—though diverse in structure and function, the reciprocal relationships conspire severally and collectively in uniformity of operation and direction. Thus in the constitution of the bodily frame, the blood (and its main organ, the heart) forms the *end* to which the absorption of food (and its organs) is devoted to secure, while again the blood is a *means* for the arrest of decay and the renovation of vigour; the lungs constitute a *means* for the aeration and vitalizing of the blood, and they in their turn exist as the *end* of the respiratory process (with its organs); the heart is a *means* for the circulation of the blood, and once more it is the *end* towards the promotion of whose activity the lungs and respiratory processes (as *means*) are essential; while this associated system of ends and means is organically designed as a unity to the supreme and ultimate *end* of maintaining physical and mental integrity and sustained power of work.

The social system as an organism, and the commercial section as a segregated portion of the general activities of life, are fundamentally analogous, as scientists have finally established, to the

natural arrangements perceivable in the physical world, and hence the principles deduced from an analysis of natural processes are competent of systematic application to aggregates of men and to the appropriate means to be selected for effecting the purposes which they desire and intend.

To organise then, or the process of organisation, is the method of rendering organic, that is, the process of framing a system of effort involving the structure and functional arrangements which have been generally described. And we shall notice in the application of these general principles to insurance or other forms of commercial enterprise that any structure thus rendered organic must possess for complete efficiency of execution both an inherent (or, adapted to human work, a traditionary) capacity of work, and also an acquired capability of ready and intimate adaptation to varying and novel conditions and influences which may successively occur and the totality of which is usually termed the environment or the universe of surrounding circumstances.

The ultimate and copious storehouse of types of structure and models of function for human imitation in plan and execution is discoverable in the domain of Nature. The shape of a vessel adapted to ease and swiftness of motion through water is fashioned upon the mode of construction of a fish ; the combination of structural strength with economy of materials in the formation of supporting columns is furnished by patterns of architecture observable in the vegetable world and in the activities of ants ; while the higher mathematics have demonstrated that no conjunction of cohesion with a minimum expenditure of labour and materials, and the widest extent of available and required space is more competent than the hexagonal angular construction of the cells of the bee. And in a similar manner the most effective modes of uniting the various sections of a system in relation to the precisest accomplishment of the end designed must be derived from a scrutiny of material organisms. We discover again that all bodies, whether in the inorganic or organic spheres, exhibit a consistent simplicity of composition in the utilization of a few elements only ; while the entire and apparently complex systems of the varied universe are bound into unity of operation also, to specify one link alone, by the pervading law or uniformity of the Inverse Square which is deciphered in the phenomena of heat, light, sound, electricity,

magnetism and gravitation ; and finally that an identical directness and uniformity are perceivable in the minutest as in the most massive structures, so that if the requisite precision of physical and mathematical analysis were possible, the complete doctrine of Hydrodynamics, for example, would be as luminously evident in the ripples of a pool as in the waves of the ocean.

An examination of the forms and functions which Nature discloses may, without the intrusion of minutiæ or the presentation of individual examples, be thus summarised : (i) Simplicity of structure and function in every part, including the assignment of specific activities to specialised organs. This principle clearly involves Congruity of relation between each section, and of adjustment also of its allotted contribution to the designed result ; (ii.) The Interdependence of each part upon the others as a whole, and of each upon each, and of all upon each, so that a pervasive unity of operation is established ; (iii.) The provision of the ultimately finished form of the organism is involved potentially in the original germ ; that is to say, the primitive system, however simple be its formation, contains an orderly and progressive power within itself of gradual development into more complex forms and capacities as its relationships with more complicated surroundings to which it becomes exposed extend, in order that, without violation or abrupt change of its simplicity and unity, its spontaneous adjustment may be secured to more varied conditions of existence and use. Continued maintenance is dependent upon this inherent endowment of adaptation ; failure to achieve it means decrepitude and death. (iv.) The execution of the purposes for which the system is designed proceeds in the direction of the Line of Least Resistance with the consequent expenditure of the smallest possible energy.

To these features it may be added (v.) that the character or nature of the units or parts of which the organism is composed determines the character or nature of the aggregate when the units are associated for any specific end. This final condition may be expressed for our purpose in the statement that integrity of associated work depends upon harmonious combination of the characters and capacities of the workers, or in other words the promotion of what is customarily termed an *esprit de corps*.

It is a painful observation in every department of the world's life and commerce that a vast proportion of the labour of the most

energetic and zealous toilers is either completely wasted or gravely rendered ineffective through the absence of an adequate organisation ; and in adapting the principles described to human enterprise we must bear in mind another factor which is alien from natural and mechanical processes. The parts of the mechanism consist of human beings with different capacities and degrees of capacity, diverse forms of character and will, manifold infirmities and imperfections like our own, where the regulative skill, the sagacious insight and foresight of the organiser must be manifested in his choice selection and ordering of the units so that the integrity of the system and the realization of the end may be attained by the felicitous subordination and adjustment of the united virtues and defects. Upon this interesting point an acute and capable critic of administration,—versed especially in the working of the departments of Government,—has pointed out that no one who has not commanded can appreciate the extent to which even the most exact and systematic instructions are likely to be neglected or disobeyed,—from varied causes of personal infirmity residing in the character and will,—by the subordinates on whom their execution is devolved.

Books and Accounts.

As an application of these principles, succeeding chapters form an attempt to produce simplicity, mutual dependence, orderly combination and sequence, absence of needless labour, and conjoint tendency to the end in view, of the books of account to be employed.

For ease of work the size of the several books should be as small as possible and be readily handled. For this purpose the Cash Book, for example, may be separated into two different volumes,—the one containing the income, the other the expenditure.

The titles of the columns of the books again should be immediately intelligible and self-interpretative, so that an external examiner may at once ascertain their use.

The books at the branch offices should correspond as closely as possible with the form of those adopted at the head office in order that unity of structure and work may prevail throughout the entire system.

It need scarcely be suggested that a clear and succinct book of regulations should be prepared for guidance in every branch and agency of importance, prescribing the *general* arrangement

of work and duties, and including special instructions upon the questions of accounts and constancy of check.

Simplicity and uniformity of work are also secured, not merely by the rendering of accounts by the agencies and branches on a uniform printed plan, but also by their receipt at the head office at strictly definite and uniform dates.

In the examination and check of calculations and statements it is an important rule that the examiner should not simply survey the actual work of the other. It is surprising to find in practical experience how extensively this erroneous course facilitates the confirmation of errors. A fatality often appears to exist,—when, for example, the "personal equation," as it is termed, of the two persons is virtually coincident,—for the examiner tends, on this plan, to pass as accurate the mistakes of the original worker, especially in calculations, as though they both were gifted with the capacity of committing an identical error at an identical point. The examiner should independently perform the calculation and prepare the statement apart from inspection of the other person's processes and results, and the equivalence on comparison of the two reports may then with confidence be accepted generally as correct.

In connection with the accounts, the unhappy question of fraudulent action must necessarily, though reluctantly, be considered. It is in no way suggested that a system of espionage should be adopted; confidence in men of approved trustworthiness should be steadily reposed, but since frauds unfortunately occur in the most carefully constructed schemes, a just and adequate plan, without the intrusion or suggestion of suspicion in its formation and execution, should be pursued with the object not simply of averting loss to the company, but also, and especially, of removing the forces of temptation which may at times, by the fatal concurrence of opportune occasion and temporary pressure of inclination, be competent to subvert even a righteous will. Upon this subject three observations may be submitted. The cashier should not also assume the duties of the accountant; the separation of these functions operates as an excellent barrier against improper dealings. The experience of banks and other extensive institutions has proved the necessity of each official being compelled regularly to take his appointed holiday so that the chances of prolonged

concealment of any erroneous conduct may be diminished. The smallest amount of loose cash, consistent with the daily requirements of the business, should be retained in the cash-box; a manager's account should be opened with the bank up to a specified limit, on which he may draw his own cheques for minor amounts,—the account being replenished to its limit at each regular meeting of the directors; and any practice of borrowing from the cash-box by the officials upon I.O.U.'s should be severely restrained. (These remarks are offered in no spirit of suggestion that evil practices are prevalent but exclusively for the purpose of averting temptation under transient stress.)

Where an auditor is not retained upon the staff as a permanent official, the books of one clerk should be periodically examined, as an essential portion of duty by another clerk whose customary work lies outside the range of duties of the official whose books are thus checked.

The responsibilities of the regular professional audit admit of special consideration in this respect. The precise scope of the duties and obligations of auditors has been expressed in various judicial decisions; and although, like all questions of a difficult and delicate character, these decisions necessarily include general terms (which a judge will alone interpret) attended by qualifications, exceptions, and limiting conditions, the results may be reasonably summarised. An auditor's duty then does not comprise advice to the directors or shareholders upon their method or course of administration; he is not concerned with the prudence or imprudence of making advances; or with the profitable or unproductive conduct of the business; he is a "watchdog" but "not a bloodhound"; he is justified in trusting the tried servants of the company in whom the board reposes confidence; he is entitled to rely upon their representations and honourableness provided he exercise reasonable judgment and care; in the distinct absence of suspicious circumstances he is only bound to be reasonably cautious, and he must afford adequate information to the shareholders to whom he is responsible, and not simply the means of information. Thus his duties, though somewhat loosely defined from the nature of the case, are based upon the exercise of reasonable skill, care, and caution. And in the fulfilment of his obligations it has always appeared to us that a valuable protection would be furnished if

the system of organisation could provide that the auditor should not institute his examination of the books and accounts at definite and well-known periods, but should attend upon days which are not previously fixed. This course would possess the effect of keeping the books and accounts precisely up to date, and the vital advantage also of proving an efficient preventive to the possibility of any irregular proceedings by the uncertainty of the times of investigation. With reference to the appointment of auditors it need only be observed that it is distinctly preferable to nominate men who are accountants by profession. No reflection is intended to be cast by this suggestion upon the audit of accounts by shrewd and capable men of business, but it is obvious that the examination must necessarily be more rigorous and exhaustive and be more exactly devoted specifically to points where error if it exist is most likely to occur, with a higher probability of detection of improper acts if the selection be restricted to persons who by education, specialized training and experience, are peculiarly adapted to this description of work. A similar observation applies to the audit of the accounts of private firms of any magnitude. It is important to provide that while details and ordinary examinations be performed by their skilled subordinates, the special supervision and particular enquiry on points where lies the stress of the chances of error and possible fraud should be the exclusive personal work of one of the principals himself. Hence the professional auditor, released from minor details, should institute so close and searching an investigation of the system of the office that he may be able accurately to define for himself those parts and stages of the arrangements and those portions of the scheme of accounts where fraud, if it be attempted, would most probably be exhibited and to which consequently his main attention should be directed. A passing remark may be submitted. The deeds of mortgage will be examined in connection with the terms of the loans contained in the Minute Book, and where these comprise a reduction by periodical instalments of principal. the auditor would ascertain from the books that the stipulated payments had been received or their omission or deferment authorized by the board. In a series of well-known frauds upon a bank where advances were granted on condition of successive reductions, the official, on receiving the repayments appropriated them, and out of the proceeds paid, and entered

regularly, the recurring interest upon the original amount of loan. It is a sound practice then that as instalments are discharged the mortgage deed should be correspondingly endorsed and the record examined by the auditor. Sales of securities again would be compared with the authorization in the Minute Book. These examples of rigorous scrutiny might be indefinitely multiplied, but the two adduced may suffice as representative specimens. All receipts (for example, for renewal premiums) should possess counterfoils, while in some companies, unless the modern practice has been amended, this condition was not always observed. The examination of the counterfoils is necessary in order to ascertain in the audit the accuracy of the schedule of lapsed and outstanding policies and of Assurances where the days of grace have been extended. The chief element in the auditor's duties is the detection, or rather the prevention, of wrongful acts ; and hence the insistence here upon the adoption of apparently minute measures, where they are feasible, for avoidance and exposure, is simply the object of rendering the essential aim of examination complete without any unjust or ungenerous implications that fraudulent practices are common or to be expected. A leak may prove as fatal in time as an open channel. A mistaken conception in the estimate of commercial morality is frequently entertained. A startling fraud arrests urgent and instant attention ; stimulates the imagination and excites general distrust,—an exaggeration of inference based upon present intensity of impression, whose misleading nature is discussed in all treatises on rhetoric,—while, like the votaries of a certain temple to Neptune, persons, at such a period, under the deepened impulse and suggestiveness of an actual occurrence, omit to remember on the other hand the countless instances in which trust has been loyally responded to and honour punctually observed. Each case must be regarded on the basis of proportion when the reality will be discovered that practically in the multitudinous and complex interchanges and operations of industry where confidence is reposed the ratio of violated trust to the scrupulous obedience to honour is infinitesimal. In a company of magnitude a very useful and permanent protection (as has already been implied) is afforded against the chance of improper actions and towards securing the prompt performance equally of official work, by the appointment of an internal auditor

by the directors who shall be included in the office staff. He would be independent of all departments and officers,—holding his post directly from the board,—and his duties would consist of the daily audit of the books, and the report of the results to the directors. His services also could be utilized in suggesting improvements in the system of accounts, in lessening the amount of labour, and conducing to its effectiveness. An important portion of his duties would consist in the periodical inspection of the accounts of the branches, by personal visits, and here, for the reasons already assigned, these inspections should not recur at definite and prescribed dates but at unpredetermined intervals, so far as the branches are concerned; while in addition to these services he possesses the opportunity of aiding the Administrator at the head office by reporting without in any way acting as an instrument of *espionage* any irregularities or defects in work or organisation and any improvement in the modes of local administration which survey and judgment may suggest.

A curious lack of proportion in organisation may sometimes be noted, though the example is insignificant in itself. In an index of names (used in searching the registers for prior assurances) the same space is frequently accorded to the letters I, X, and Z as to those more extensively in currency. A casual inspection of any directory of surnames will show that the number commencing with B, C, H, M, P, S, and W are as a total upwards of 25 times the number of instances where the initial letters consist of I, Q, U, V, X, Y and Z.

Before proceeding to other sections of organisation a passing reference may be made to the features already described of Simplicity and Congruity. Complexity is still apparent in a marine policy where the occurrence of difficulties of interpretation is only averted by the traditional code of honour which controls its terms. A similar condition was observable in the ancient forms of life policies and in the previous practice of the computation of reserves individually (where this course was not required by the system of distribution). This quality is further noticeable in some surviving methods of the division of profits. Simplicity is perceived, citing from the last category of illustration, in the compound reversionary bonus scheme, which again exhibits the attribute of congruity in a fairly adequate form by implicit recognition of the element of

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excess interest upon reserves and upon the values of existing bonuses. Incongruity, opposed to the teachings of Nature, is manifested in some current forms of distribution where the essential relation of extent of participation to the amount of contribution to surplus is ignored, and some alien and irrelevant connection is established.

The Arrangement of Work.

A written statement should be possessed by each clerk of the nature and scope of his prescribed duties and the periods of periodical completion.

No remark appears to be required upon the appropriate adaptation of work to suitable capacity.

The work of each should be inspected by the head of the department for approval or reproval, and he should be entrusted with discretionary power in this respect, so that—unless repeated faults demand special consideration—the time of the administrator may not be wasted by frequent references.

It is a serviceable and salutary rule in stimulating ambition and energy, and in the cultivation of a spirit of pride and hope that work which specially testifies to thought, skill, and well-directed zeal should be accompanied by generous commendation and encouragement.

The question of overtime is important. Occasions are periodically incidental to every scheme of work which rightfully involve the employment of time beyond the ordinary and prescribed hours, such as the quarter days in fire insurance, special periods of pressure, and the exceptional service entailed by the recurrent valuation and distribution of profits in life departments. Here the requisition of overtime is an integral portion of the duties accepted; and it is obviously just that the thorough completion of the day's work,—or all systems of organisation must fail,—should be comprised within the compass of the day. But while the necessary demands of the office must be observed by the requirement of overtime, the scheme of administration should be so constructed that, with vigorous attention and skill, the amount of overtime should be reduced within the smallest compass. The needs, and indeed the claims, of the staff should be righteously recognised for adequate opportunities of mental cultivation and of legitimate

recreation, so that the continuous routine may not deteriorate character and capacity and a sense of injustice be produced. The officials of a company are not mere mechanical instruments, and a sufficient period for the development of the self, and for the pursuance of interests distinct from the monotony of official labour should constitute a special and serious aim in all systems of organisation consistent, of course, with the finished and orderly completion of the contracted work. And a studied mode of administration can reasonably preserve this conjunction of fitting and ample occasion for the free evolving of individual nature with the adequate fulfilment of the duties which the company properly exacts. The subject will be discussed more fully hereafter, but it may be well to note that even on utilitarian grounds an adequate allowance of recreation (or refashioning and renovation) of faculties specially employed in business by the interposition of sufficient leisure for the utilization of other capacities in different intellectual or physical pursuits confers an added force and freshness upon the prior set of faculties in consequence of the intermediate rest for recovery of energy.

It is often a startling and humbling revelation of the limitations which attend the most sedulous attempts, to perceive the wide extent to which a probably casual inattention to details obstructs or defeats a fortunate issue. The elements of larger and more obtrusive scope are scrupulously observed and measured, but with their completion the interest and thought appear to become arrested and are spent in diminished concentration and vigilance upon the seemingly minor sections on which, however, with equal validity, depends the integrity of the scheme devised. "De minimis non curat lex," we know, but in Nature the minutest molecule is fashioned with the precision and symmetry bestowed upon the most imposing mass; and in the mechanics of human enterprise the test of stability and efficient action resides with essential potency in the most diminutive unit. The import of insignificance is simply relative, and relative usually not of mass but of value.

It may be incidentally remarked, as a conclusion of observation by keen and skilled critics, that even a thoughtful system of organisation may often be wrongly pronounced ineffective and inapt not by reason of any intrinsic defectiveness but exclusively on the ground that an unwise parsimony has thwarted its facile execution

through deficiency in the proportioned and necessary number of workers which its successful prosecution demands.

Where the business of a department involves technical aptitude manifested by external examinations some suitable reward should be granted upon the completion of those tests and the accession thereby secured to the office of a more skilful and serviceable performance of its duties. Although as a wise statesman has justly remarked, honours, prizes and examinations are not the ornaments of our intellectual and moral health, but the medicines of our infirmities in the impulsion to effort by rewards, in place of the spontaneous toil of punctually fulfilling dutiful obligations and personal cultivation, the weaknesses of human nature suggest the concession of some material encouragement when results are attained which can be utilized in the completer accomplishment of official work.

It is reasonable that recurrent periods of overtime which established occasions require should be accompanied by what is usually termed "tea-money," while the valuations of a life company's liabilities demand, on account of their lengthened duration and technical nature, a more durable and generous recognition. It was the sensible practice of an office to assess this exceptional grant at the rate of 50 per cent. per hour in excess of the hourly salary of the worker, special regard, however, by the adoption of a higher scale, being particularly assigned to those officials whose duties comprised calculations and investigations of a more skilled and technical character.

THE STAFF.

Selection : It is the proper practice of companies to require an entrance examination for the purpose of ascertaining that the applicant possesses the ordinary rudiments of education in order that the time of the office may not be wasted in training deficient clerks. The import of these examinations is simple qualification. But examinations, it is obvious, are strictly limited in their conclusiveness as a test of official fitness : capacity of acquisition and application of knowledge frequently exist in inverse ratio to vivacity of mind, power of grasp, and readiness of resource ; and although the effectiveness of insight into character and capability is competent of exercise to a comparatively minor degree at the unformed and plastic ages at which youths are ordinarily admitted,—when

the signs of promise in one direction or the other are generally faint,—it is clear that assuming a fair range and soundness of education the efficient criterion of acceptance must depend upon personal judgment at an interview where the applicant being placed gently at his ease, the merits or demerits can be reasonably adjudged. A quick apprehensiveness, an alert manner, a bright intelligence, a steadfast nature outweigh all intellectual tests for serviceable usefulness in an office ; though undoubtedly multitudes of instances occur where apparent dulness may be merely attributable to timidity or novelty of situation, and seeming stolidity may mask for a time the possession of strenuous and solid power. Hence the deeper necessity of broadness and nicety of judgment in the selection. High character, especially in those occupying the more responsible posts, is worth much intellectual adroitness, since by the tone and temper with which it pervades an assembly of boys and men of different dispositions, varied accessibility to diverse temptations, and inequalities of moral strength, it exercises a purifying influence and adds conspicuously to the order, discipline, and effectiveness of the entire staff. While the younger candidates will be tested by the heads of departments and the superior appointments by the chief administrator himself, the competent working of all systems of organisation will be materially affected by the native and acquired clearness and readiness of assessing character and ability which each choice involves. And it may be expressed, therefore, as a general maxim of administrative fitness that the keener and surer be the discriminative power of insight in selection, founded upon a trained and rapid judgment of men, the nearer has the administrator attained the consummation of a sound and competent organiser and the more minutely will his system compass the purposes which it is designed to reach. Insight into the capacities, intellectual and moral, of the workers involves the realization of foresight in the construction of plans.

Clerks for ordinary posts are usually selected according to a prescribed rule of age. This is an obvious provision in respect of youths who are appointed while the character and mind are plastic and consequently more readily moulded into the traditionary methods of the company. For a very valuable controlling influence in all commercial associations consists in the strength and preservation of the traditions or hereditary *traits*, of practice and

tone of business action, tending as they do, to create a moral atmosphere of honourable and consistent procedure and a unifying power in the formation and conservation of a bond of union in the common interests. A fine tradition for character and aptitude forms a potent force in promoting, by its accumulative impressiveness, a sense of honour in the spirit and conduct of the industrial proceedings of all associations. Hence a natural corollary ensues that studied care should be adopted to retain in the service men who have assimilated this temper and embody it as an integral part of the guiding principles of their work and who are fitted, therefore, to transmit it undiminished and confirmed as the moral and intellectual ensign of the business community. Laxity and heedlessness in permitting the departure from service of proved subordinates are always signs of feeble administration and corporate weakness. But it is obvious that no final condition of fixity in the qualification of age should be settled, though for the customary posts no wide limit should exist. For it frequently occurs that a youth beyond or under the prescribed age is possessed of latent capacities whose admission regardless of the rule would prove much more serviceable than a strict adherence to a definite custom. Moreover, at an age somewhat in excess of the general limit a youth is obviously more cognizant with his powers and defects and has acquired a firmer strength of will and a more developed character as the foundation of a stabler and more consistent gift of service. For rules, justly conceived, are merely guides and indications, based upon *general* experience, and admitting accordingly of exceptions, since no experience can compass all future contingencies: flexibility of modification constitutes the nature of their valid adaptiveness; and one of the signal marks of sagacious and vigilant administrative power resides in the courage and wisdom of their soundly-suggested violation.

The question of age need not be discussed in connection with appointments to higher posts, since here specific capacity for the form of duty demanded will afford the ruling condition.

Salaries.—While a fixed and regular scale of increase with a limit suitably attached to inferior descriptions of work is adopted, a variation should be introduced both as a reward of merit and a stimulus to ambition, capacity, and zeal. In a valuable report upon the reconstruction of the Civil Service clerical scheme

(presented to the House of Commons in 1875, and commonly known as the Report of the Playfair Commission) it is suggested that, in accordance with the practice of extensive institutions, special extra rates of payment, styled "Duty-pay," should be attached to superior duties and to work of an exceptional nature. We would add to this recommendation the inclusion of distinctive aptitude or ability in the performance of any allotted trust. A mechanical scale of remuneration possesses a depressing effect upon officers who, whether the work be intelligently done or conducted perfunctorily, so long as it is accomplished, receive no reward and stimulus for earnestness and energy; while the introduction of an arrangement of the purport just described would obviously and legitimately involve a wider and more inciting scope and hopefulness to merit. It is true that devotion and efficiency which respond to external incentives rather than the higher motives which a sense of duty prescribes do not imply the finer forms of character, but the materials (without implying any disrespect in the use of this term) which the administrator is required to mould into fitting modes of service are naturally, with rarity of event, shapeless or unshaped, fluid or unstably fixed, particularly at a period when the purer conception and moral aspect of responsibility are but slowly emerging from crudeness and immaturity into a fuller consciousness. Too minor a degree of attention and reflection is frequently bestowed upon an element so significant in the completeness of an organisation as a judiciously adjusted scale of remuneration adapted to merit and to ambitious utility. A mechanic and conventional rule is often welcome to us as an economy of discriminative thought and judgment; and often again the reason lies in one's customary habit of adopting without personal meditation and mental measuring the current practices which prevail. But current practices, in this department as in others, frequently signify the mere survival, beyond their value and adaptiveness, of plans which were serviceable and adequate in their origin, but which have now lapsed into incongruity with fresh conditions. As an aid to the ampler service of a company and a justly appreciative recognition of the ambitions and hopes of the workers themselves, an administrator will find his toil amply repaid by a serious and sagacious examination of the question, where merit in the distribution is assigned a special and legitimate place.

The ancient maxim, *omnis innovatio plus novitate perturbat quam utilitate prodest,* has long been exploded as a false and disastrous proposition.

Promotion.—A distinguished statesman affirmed, as the product of prolonged observation, that unhappily, in the service of government at all events, approved capacity in a specified class of work frequently barred the transfer of the competent official to a more responsible and remunerative post. Complete capability is unfortunately so often rare,—trained mental power conjoined with specialized experience which have attained a unique form of serviceableness, and the predominance of a steadfast moral sense,—that the temptation is always urgent to retain a trusted and valued servant in a prominent position which he occupies with the conspicuous ease of mastery. A transfer to a different range of duty is confronted with two possibilities: on the one hand, the discipline and grasp acquired in the inferior position are fashioned and effective instruments for wider and more responsible control: on the other hand, a lengthened continuance in one description of work which has largely become fused into routine tends to intellectual detriment and produces, to an extent, inaptitude for fresh and novel conditions. And when the latter result, it should be suggested, becomes primarily evident, a duty of a twofold nature is presented: by retaining exceptional ability in the performance of work which has assumed the form of routine, the service of the company in some perhaps of its paramount departments is deprived of cardinal power of initiation and supervision; while a duty is correspondently incumbent in relation to the official himself that, by persistence in station, his mental vigour and alertness shall neither fail, through want of the provision, where practicable, of a congenial arena for the exercise of disciplined capacity, nor sustain impoverishment and inelasticity of power. Mental analysis abundantly proves, with the confirmation of practical experience, that the intellect can be subjected to no more enfeebling influence than the torpidity entailed by habitual occupation in duties which have lost their freshness and novelty of call upon readiness and flexibility of resource. These considerations, though applying to all capacity, naturally apply with emphatic force to the abler minds, and equally of course they must be regarded, in their practical attention and modifications, to the necessities and scope of work in an office.

They are simply designed to suggest thought. In spheres of labour, however, which demand and adequately exercise vigour and rapidity of intelligence, and admit the vigilant adaptation of principles to varying circumstances, the difficulty obviously vanishes. We are also presented with the diverse effects which are possibly incident upon a change of position: a man who has steadily exhibited a distinctive aptitude and discretion in a certain post may fail to display a corresponding adaptability, inventive skill, and administrative energy, when promoted to a higher sphere. For it is a common-place of experience that this risk generally attaches to all changes, so that the probable issue sometimes becomes to a extent precarious. An ampler opportunity of service, an arena for the fuller manifestation of constructive or controlling capacity, the presentation of novel problems, the incursion into unaccustomed modes and ranges of thought and enterprise, often deprive a capable man of the energy and skill which he had previously displayed; or rather these qualities tend to become depressed and inoperative under the strain of the larger responsibility and the different aspect and obligations of a more onerous field of work. In other instances, however, more testing and rigorous conditions will simply evoke activities into more prominent display; and a man again who has apparently shown but a moderate scale of intelligence and ordinary powers in the circle of work which hitherto has circumscribed his development will, under the stimulus and ambitions of a wider and more intricate range of effort, spontaneously exalt into potency abilities and amplitude of views which formerly had lain latent and unexplored. A keener atmosphere can both depress and vivify our mental and moral life according to its native and acquired form. Hence the grave difficulty of a wise scheme of promotion which shall fulfil with diminished chances of miscomputation the conjoint conditions of evolving, for the general advantage, all dormant talents and averting this intellectual and practical deterioration or atrophy which the Nemesis of persistent and changeless routine inflicts. Notwithstanding, however, the established fact that the disposition of promotion is a complex and tentative process, the conclusion is clear that, for the purposes of securing the extended welfare of an Association by the retention of capable and experienced men, maintaining a spirit of unity and hope, and cultivating all evident and latent abilities which may

exist, promotion, so far as is compatible with the necessities of the business (with, however, a genuine straining in the direction now suggested), should be confined within the staff without the importation into the higher positions of external candidates. And this course should be pursued even in face of any special risks that may possibly or probably be involved provided the official be reasonably competent, zealous, and high principled. There is always the possibility, if these general conditions be fulfilled, that, although an approximately ideal fitness for the post should not be distinctly observable,—and here the matured gift of insight shows its significance,—the transfer may educe into activity by its more strenuous and searching demands, capacities and adaptabilities which have not already been accorded a stimulating occasion of display. Companies possessing branches possess the wider area for the exercise of this observant care. It is needless to add that the confident expectation of promotion on approved ability and conduct constitutes one of the most efficient agencies in successful and harmonious administration ; and effectually aids in conserving that spirit of hopefulness which inspires animation into labour and vivacity into character, while conspicuously conducing to the paramount interests of a company by preventing the loss of able servants at the very moment when their acquired experience and ripened knowledge are the most competent and confirmed.

" Work without hope draws nectar in a sieve,
And hope without an object cannot live."

Where it is not found expedient to promote men, for some valid reason, who have displayed special aptitudes, the system of "Duty-pay," to which reference has already been made, will prove of service.

It is in the complicated region of promotion, as has been observed, that the signal value of original and cultivated insight into character and adaptable adjustment of qualities comes prominently into play ; and by the sedulous training of this power (particularly where the gift is innately possessed) the administrator can usually acquire a sureness of prediction which will prove sufficiently adequate to gauge the possibilities of development which a novel situation will either overshadow or educe.

Promotion to posts demanding distinctive skill and cultivated energy of mind should obviously be regulated by merit alone ;

while the posts of comparatively minor dimensions with a diminished claim for resources and gifts might be based upon length of service. And in every promotion the element of moral character should be assigned a dominating place. No ability can atone in the fulfilment of duty and trust for deficiency of high principles. Both in the selection of candidates, and particularly in their appointment to higher ranks where their influence will be materially widened and more pervasive, this consideration is of primal consequence. The young men whose fortunes to an appreciable extent the head of a department will guide are beings of ambitions and susceptibilities, of capacities for moral growth or decay, and with natures peculiarly malleable and ductile at the usual ages into finished or deteriorated forms: the analogy of mechanism fails on this signal point where independent life and volition are substituted for rigid and unchanging materials; and a deeper responsibility upon the administrator accordingly supervenes. It is not too much to claim, particularly in connection with unformed or partially nascent natures with which the administrator has to deal in the early stages of careers, that he should not simply regard, as qualifications for promotion, proficiency in capacity for the service of the company, but should equally arrange, so far as the character of the heads of departments is concerned, that a purified moral atmosphere shall be created for the nurture of what is best in the juniors and the general diffusion of a confident feeling of justice and equitable treatment.

Before proceeding to the training of the clerks in official discipline and associated work, we might again allude to the important Report of the Commission which has already been cited. That Report was of an eminently practical character, and embodied the results of inquiries not in any degree restricted to the customs of the Civil Service, but ranging over the procedure which experience had dictated and confirmed in banking and commercial institutions generally. It was there proposed that the staff should consist of two divisions, a lower and a higher, with different standards of examination adapted to the inferior and more important duties which the two departments were respectively to comprise. The superior division was designed to attract men of advanced education and special capacities who should, however, during their year's period of probation. master the details of the more simple and

routine duties assigned to the inferior division. The latter department would comprise men who were only competent to perform the less responsible and exacting descriptions of work. To each division was to be applied a different scale of service remuneration. It was further recommended that promotions from the lower to the higher division should be events of rare occurrence; and that any promotions of this character should be dependent upon the occupant of a post in the lower branch successfully competing for any vacant appointment in the higher department with candidates from the Universities and the outside public. And to the conclusions of this Report may be attached the deliberate view of a practised and accomplished statesman that a definite separation of Departmental work should be effected into the two branches of mechanical and intellectual. Practical, and possibly imperative, as such a scheme may be for an extensive and diversified service like our Civil Departments, it does not appear to be feasible in connection with our more limited spheres. And although it must unhappily occur that many officials will only, from limitation of ability, possess a narrowed scope of expectation, the superior appointments should be first opened to the servants of the office provided the stipulated standard of excellence be fulfilled. The incitement of hope should be furnished to studiously and earnestly cultivated ability, devoted assiduity to work, and faithful recognition of responsibility, whatever may be the grade of service in which these qualities may be shown. The famous saying of the potential *bâton* in the knapsack should be equally applicable in its stimulating energy to commercial life; and the process of natural Selection finds its precise analogue in every department of human enterprise.

The Training of Clerks.—The primary object naturally is efficiency for the company's service; but secondarily also (and indeed as an essential element in this fundamental requirement) the general education of the staff in the authentic sense (*e, duco,*—the educing by gradation, so far as official opportunities extend, of each member's power and symmetry of character and capacities,—those which constitute his fitness not simply as a unit in the official mechanism but essentially as a man)—should receive the administrator's care through every channel by which that supervising process is competent. This responsible exercise of a wise and

generous concern tends obviously, apart from the individual's personal development, to the effectiveness of the general work, through the quickening of interest which encouragement and reward inevitably produce in responsive natures. In smaller companies a clerk is enabled to acquire, if he be intelligent and ambitious, an insight into the varied modes of business ; and in larger companies a similarly beneficial course can be pursued by passing the clerk, not necessarily with promotion, through the various grades of service (comprised within the particular description of insurance in which his duty lies), so that his view may not be restricted to the monotonous confines of his own apportioned labour but may expand into a gradual and general conception and understanding of the transactions as a unity.

Dismissals.—It is needless to discuss this painful subject at any length, except to mention two principles : (i) that the act should be adopted only, except in flagrant instances, by prior admonition and reasonable trial of reformation, and that admonition should bear the genuine aspect of personal concern and hope for the offender's reclamation ; (ii.) that it should be arranged, in a constitutional and valid way, that all legitimate grievances should be capable of being submitted to the head of the department, and in the final resort to the chief administrator with a view to the precise affirmation of justice in the particular case, and the prevalence throughout the staff of a secure sense of the equitable assessment of faults and the righteous settlement of difficulties whencesoever they originate.

Retirement and Superannuation.—A compulsory limit of time for retirement (unless it be fixed when the average term of useful service is practically and generally exhausted and the period of rest fully earned) is often surrounded with perplexities. On the one hand, a uniform age may deprive the office of matured and disciplined capacity which is still competent of valued service : on the other hand, a lengthened maintenance of office will tend to retain the less efficient members, and erect a definite barrier to the advancement of ability and effectiveness, and thus to precipitate the departure to other spheres of work of the most able and ambitious men in the full vigour of the usefulness and cultivated experience which they have acquired. Hence an undue prolongation of service has the disastrous effect of keeping the office at the level of merely *average* ability (employing that

term in its colloquial sense) in place of a variety and fulness of intelligence and knowledge in all their degrees and forms. In the face of these perplexities the rule probably of settling the date of compulsory retirement at the age of 65, with withdrawal on the attainment of age 60 if the directors should deem that course in any individual instance to be advisable, satisfies the conditions which are most likely in general practice to occur.

In the formation of the scale of superannuation allowances—the adoption of which is now generally admitted to be just,—elaborate schemes can be prepared which involve cognisance of the length of service, the successive rates of salary, and other elements. But they are usually cumbrous of operation, with a tendency to failure, and no simpler or more adequate system can be devised than that adopted in the service of government by which the pension is based upon $\frac{1}{60}$th of the salary at the date of withdrawal in respect of each year's service within the limit of $\frac{40}{60}$ths or $\frac{2}{3}$rds, and accompanied by the condition that the regulation shall not apply until a certain prescribed period of work has elapsed. Special allowances for incapacity consequent upon persistent ill-health must be assessed upon the merits of each case.

Difficult questions sometimes arise where death occurs prematurely after entry upon the service, and a widow and children are left practically unprovided for, in consequence possibly of the smallness of the salary at these earlier stages having prevented the completion of any sufficing provision. A plan for satisfying the applications which are usually submitted on these sorrowful occasions might reasonably be devised. If the clerks were required as a condition of admission to effect a policy for £200 increasing perhaps to £500, payable on the attainment of age 65 or at previous death on the non-participatory scale, the company might see fit to discharge one-half of the annual premium (or a reasonably proportionate part) with the stipulation that it possessed a primary legal charge upon the assurance for the amounts advanced. If death supervened at a comparatively speedy date the policy would be available to meet the necessities of the family,—the advanced portions of the premiums being waived or deducted according to the urgencies of the case; while on the attainment of the deferred age the entire policy (or rather that part of it which had been sustained by the company's payments) might lapse into the

superannuation fund as a contribution towards the payment of the pensions generally. This plan would avoid the exaction of annual subscriptions from the members towards the creation and maintenance of that fund,—a course which possesses the further disadvantage of possible friction in respect of the adequate and united representation in the management of the several interests involved.

Having disposed briefly and partially of particular questions concerned in every system of office organisation, the completion of the subject requires a few concluding observations upon the merits and defects which these systems frequently present. Every scheme of work, in every sphere of enterprise, however skilfully and thoughtfully elaborated, is obnoxious to criticism of greater or minor validity. The mind which devised it after anxious study becomes too jaded and biassed in view to survey it keenly and exhaustively in its unity and to constitute an effective critic of its own achievement: the men who have been trained under its influence and discipline lose vivacity and freshness of scrutiny from long acceptance of its rules; and an external observer consequently with an unprejudiced and detached mind could readily discover deficiencies in the most adroitly conceived plan. And this is precisely the difficulty which the creator of a scheme must sustain and from which he cannot escape; for the origination and the criticism must necessarily be confined to the same intellect and hence in most instances will in all probability identically coincide. The natural and unconscious element also necessarily enters of partiality to a project of our own which has entailed laborious thought, so that the freshness is denied of a dispassionate and steady judgment. The test again of observation by actual execution, accessible in mechanical inventions, is, from the nature of the case, deferred: preliminary experiments cannot be attempted. Hence the following remarks may occasionally prove of service in the formation of all organic plans. They naturally follow upon the deductions (which should control and direct these efforts), already submitted, from the modes of structure and function discoverable universally in Nature's domain. The *simplest* organisations are generally the most efficient and the least exposed to possibilities of failure as difficult circumstances and diverse conditions supervene. The *essential* principles alone should be expressed and provided, with a fitting sense of proportion in the distinction and rank of parts and

their relations. The involvement of multiplicity of minute rules and qualifications (producing complexity of structure prior to the advent of the period when complexity should naturally and spontaneously arise with the increasing diversity of the surrounding conditions to be met) is usually ominous from the outset of gradual inadaptiveness and ultimate frustration.

A grave defect in most systems lies in the original *fixity* and rigidity of their construction, so that from the commencement a ponderous and unworkable form mars all facility of operation. Plasticity of mould, elasticity and flexibility of framework constitute the conditions of final success, consistency, and ease of execution. The adoption of general principles, in addition to their capacity of ready adjustment to unforeseen demands, possesses the further effect of leaving scope for thought, suggestiveness, resourcefulness, and a vivid sense of responsibility in those who are entrusted with the practical performance of the plan. Every possible contingency cannot be forecast and measured, and that scheme is the most likely to survive in unimpaired adequacy and utility which attempts only the prevision of the most probable issues and events and affords space and continuous provision for spontaneous growth. Before expanding this observation it will be useful to adduce an illustration derived from life assurance experience. It might first be stated, as enforcing the avoidance of undue rigidness of structure, that every scheme unavoidably and inherently possesses the general tendency to Crystallization (or unchanging fixity of form): the originator is always apt to imagine that a project once designed with elaborate care must be perpetually sound, while the workers accustomed to its use settle into a habit of unobservant routine and acquiescence; and this natural tendency is the more emphasized where the primal formation has been the more minute and mechanical. The illustration we cite relates to methods employed in the distribution of profits. The original plan has been constructed in too formal and unyielding a mould: it is continued until the business by long lapse of time has grown into a fixed relationship with its use, so that fresh and unexpected changes in the public choice of the main form of assurance (such as endowment assurances), or the indications of the imperativeness of modification in relation to the interests of new members, or the proportionate equities of policies of different durations, can only be satisfied by

some abrupt or fundamental alteration which produces conspicuous diversities of results and which has passed the stage when the modification, had the fitting opportunity been clearly perceived by an impartial eye, a vigilant observation, and a courageous grasp, could have been smoothly and readily introduced. Arising out of these considerations is the need of provision—in accordance with Nature's suggestive operations—that the system should inherently involve the power of gradual and adaptive *growth*. Changes in that event do not present the aspect of revolutions, but rather the spontaneous development of the plan for coping easily with fresh or modified conditions, and where consequently the progressive application of the system is facile, continuous, and naturally congruous with the varying necessities that occur. Any change should evolve from within without external intrusion: a protrusion of inner vitality rather than an extraneous accretion: an explicit unfolding of the implicit powers of the original germ: and this condition is the more likely to be secured if the primitive form of organisation has been simple and organic, admitting of expansion and adjustment by a natural competency of structure, and widening by graduated and related process in response to more complicated and more exacting external demands: life, in short, with the involved capacity of potential and orderly succession in place of material mechanism with automatic and changeless fixity of form. A signal feature prominently discernible throughout Organic Nature is, as has been pointed out, the invariable pursuance of development along the Line of Least Resistance; and this lesson of efficiency and security of result may be interpreted, for the purposes of human arrangements, in the form of Economy,—a wise parsimony of Time, of Labour, and of Cost, as the material element of all schemes of organisation.

CHAPTER II.

THE ESSENTIAL PRINCIPLES OF MANAGEMENT.

BY T. E. YOUNG.

A treatise, however brief, upon this subject must necessarily include considerations which are generally neglected and assumed to be relegated exclusively to the special domain of ethics. And yet without reflection upon questions of this higher import it would appear to be obvious that no treatment of management can be commensurate with the just conception of its conditions and aims, while the omission would denude the discussion of this subject of its primary value. Hence no apology seems to be requisite for the introduction of observations of this pertinent significance and illuminating power of guidance. For besides the possession of intellectual capacity in a marked degree, the qualities of origination and resourcefulness, the power of serviceable suggestiveness, the gift of volitional vigour and persistency, serenity of mind under failure and success, and the dower of energy which is largely dependent upon physical vivacity and strength, the commanding force of the administrator finds its fullest influence and range in proportion to the degree in which his own moral discipline and education of character have been cultivated and achieved. Hence from the necessities of the case, as has been stated, considerations of this order form an integral part of any exposition of the faculties which constitute the competent equipment of a leader of administration.

An essential mark of the administrator has been described in the preceding chapter upon organisation: he should possess fertility and originality in constructiveness; the gift of imagination to survey his scheme under the stress of varying conditions and the consequent provision of facilities for equipoise; generous allowance for the failures which are inevitable in the instrumentality of those by whom the scheme is applied; the resourceful readiness to meet novel situations and demands; the courage and vigour of character to modify or abandon the most cherished measures should higher and larger necessities occur; the faculty of insight into character; the sense of reality acquired by constant and

observant mingling with men and affairs in a broad-minded spirit; the patient tolerance of objections and the teachable mind to profit by adverse experiences and criticisms; the felicitous alliance of strength and persistency of will with graciousness of concession; and a generous and considerate temper for the infirmities and oppositions of men.

These are vast demands; but the consummate achievement of genuine administrative efficiency lies in the more closely approximate degree in which they are, by strenuous cultivation and self-control, attained. The apparent irony of life is often suggested when the proximate close of labour coincides with the more finished approach to this ideal, but the permanent result nevertheless remains that under the stress of these stimulating energies sound work has already been accomplished and an impressive lesson has been bequeathed, for maturer learning, to followers ambitious of the same quest.

It is sometimes suggested that since the orderly and productive conduct of business, especially one with widening ramifications, supremely depends on sagacity and force of organisation, the administrator need not possess the technical knowledge which the business may involve, since the requisite skill and trained experience can always be secured in the selection of competent subordinates. This conclusion, however, appears on reflection to be largely delusive. It implies,—and very pertinently so when the nature of the business demands technical processes as its foundation no less than for its adequate prosecution—the important fact that professional changes of practice (which may involve far-distant consequences) are thus virtually the exclusive work of an officer who is not primarily responsible. This illustration of course is an extreme one, and implies that the chief administrator possesses no general acquaintance with the special characteristics of the work. The loyalty and capacity of the subordinates are sincerely conceded: the adverse consequences of any change, for example, may result entirely from the fluctuations of trade and commercial incidents while the principle of the alteration may be sound; but the fact emphasized is that in these circumstances a radical reform would pass beyond the competent grasp and insight of the responsible official who obviously ought to be in a position to weigh and estimate, in a sufficient degree, the value of the particular proposition

and its probable effects upon the general fortunes of the enterprise which he superintends. It is in no way contended in these comments that an intimate and expert mastery of these specialized duties is essential to the chief administrator, but certainly—since the success of the corporation or undertaking in trading vitally depends, on the hypothesis assumed, upon the exact and sagacious exercise of professional functions,—that he should possess that sound and general conception of the peculiar agencies and doctrines special to the business and of the comprehensive results to which any modifications necessarily tend—seeing that those consequences may be considerably deferred before they become apparent—which will enable him to apply a shrewd and intelligent criticism and supervision. But obviously where technical or professional aptitude and experience are essentially involved in the conduct of any description of enterprise—every feature exhibiting a definite relationship and causal connection with the specific processes—the ideal, or more precisely, the appropriate superior is the man who conjoins a competent knowledge of distinctive methods and their results with the faculty of fertile origination of general designs of work and facile expertness in their adjustment to all conditions which organisation eminently implies. It is admitted that this effective combination is in any supreme degree unique.

In relation to work generally an exhaustive, steady and vigorous initiation, with clearness and breadth of imagination in divining possible contingencies affecting specific courses of action form an imperative element of power. A firm grasp of the causal connections between antecedents and consequents in their detailed scope is mainly a sequence of trained experience: but in order that the teachings of experience may be amply realized and utilized the administrator must natively possess this gift and mental tendency of tracing causes and effects as an habitual instinct (so to speak) which the cultivation derived from the concrete education of occurrences fashions into keener power and range. But although this specialized characteristic of mind, at all events in any conspicuous degree, must innately exist, a steady and patient valuation and analysis of experienced events will ultimately confer a reasonable dower of capacity: still the difference between the mere result of assiduous training on the one hand and the power of an implanted faculty on the other, will prove approximately analogous to the

distinction between the intuitional mental glance and the laborious and consecutive process of proof. Yet here again the difference must not be unduly pressed. Many forms—indeed, a vast proportion—of rapid analyses and swift mental visions which apparently exhibit the aspect of instantaneous intuitive power are really, when psychologically decomposed, a capacity simply produced by the fusion of reiterated experiments and essays which in their origin consisted of the customary modes of consecutive reasoning. Intuition thus, in many instances, consists merely of quickness and sureness of intellectual glance which isolated but repeated inspections have consolidated into the promptitude of an apparent instinct, and it is clear that effective rapidity of measure and judgment, though in essential nature a faculty of innate endowment, can only in each class of experience be serviceably operative when a lengthy and observant knowledge of events has been attained accompanied by thoughtful contemplation and remembrance of their causal relationships. But, happily for the majority of us to whom this distinctive aptitude in any exceptional form has been comparatively denied, a reasonable power sufficient for the practical purposes of life can be attained if the appropriate discipline be sought and pursued. These acquisitions are related essentially to *action*, and hence the quest is only competent of realization by extensive and thoughtful mingling with the realities of the world; with the affairs of the mart and of commerce, and by continuous intercourse with the workers in different spheres of industry. A vital condition accordingly of this equipment by the administrator is practical communion with different types of business and the varied classes of competitors in commercial pursuits. The actuary, for example, in the past has not infrequently failed in a signal manner in reaching the true ambition and aim possible to his career from too sedulous a devotion to the study and to professional attractions of an intellectual order. And a similar remark applies to the chiefs of other departments of business, without limitation to the boundaries of assurance work. Referring to the actuary once more as administrator, proficiency in mathematics, though an essential factor of professional competency, constitutes but a minor portion of his serviceable culture, and too often a devotion to the mathematical aspect of his duty has caused a deterioration of practical judgment, a failure to recognise facts which

more profoundly affected investigations and proceedings than all the mass and niceties of mathematical applications, and has even rendered unachievable by persistence, moulded into habit, the larger and broader aptitudes which command and crown a successful career. The administrator, therefore, in whatever department he rules, must prove in the rightful sense an accomplished man of the world: a spectator and participant in the wider and more complex sphere of general commercial activities and rivalries which extends beyond the restricted boundaries of professional work. Both in his specialized range and in the ampler external world of industrial energy and competition, the administrator must thoughtfully survey the phenomena which are presented and treasure in memory the relations which, in the interchanges of commerce and in the actions sequent to judgment, exist between causes and consequences. The value of this practical study lies in the fact that the power of wise discrimination and decision upon problems successively offered for solution resides in the analyzed and registered record of manifold and diverse experiences and the effects which have ensued upon the various causes and motives which have formed their origin. The memory thus becomes copiously stored with a garner of concrete examples of practice, of causal connections, experienced by himself or observed in the actions of others under diversified conditions: if these have been vigilantly and exactly investigated under the aspect of causation, it follows that when complex and novel subjects are presented in the course of business for adjudication—which naturally implies an approximately accurate prediction of probable issues,—the related and governing instances in the past,—or rather, generally, the principles which those instances embodied—shall promptly recur to remembrance and facilitate and direct the decision most relevant to be formed. This suggestion necessarily involves an intimate knowledge, as has been stated, of human nature, for all commercial activity is simply (under the control of honourable principles) the directing of men in the modes we desire. The motives which influence men in the actual transaction of affairs must consequently form the subject of mature attention as a guide to the courses and persuasives of direction which we wish to control. For human nature does not materially alter from age to age in its essential qualities, and customary motives persist, from the constitution

of things, in permanent and invariably recurrent forms. (It need hardly be added that, looking to the scope of this book, we are necessarily omitting a reference to higher incentives and the finer developments of character.) This practical knowledge, it will be admitted, is a primary condition of success in all efficient management. The staff, agents, and subordinate managers must be selected as the instruments of the company's executive policy: the soundness of the choice resides principally in the keen and swift capacity of the administrator in assessment of character and merit; and this presiding power, as has been remarked, can only be evoked into effective strength by studious observance of men generally in the conduct of affairs with the consequent discrimination of the possession of these faculties upon which adequacy of work and the sagacious expansion of undertakings finally rest. Hence the valid conclusion may be expressed in the dictum that a close and constant intercourse with business men in all departments of commercial activity, a scrutiny of their characters and methods, with the alliance between varying courses of action and their consequences alone form the stable foundation-stone of able management.

Another acquisition included in this thoughtful practice is the self-discipline, the tact, the aptness and opportuneness of action, the wisdom of reasonable and conciliatory compromise, and the courage of promptly changing and even abrogating schemes of procedure and organisation which, however ably and laboriously devised, are discovered to be imperfect or inadequate. There cannot be a doubt that many careers happy in promise of useful service have been marred by the reluctant tardiness, until the precise epoch had vanished, to surrender erroneous or incongruous systems of work, which naturally present urgent claims for retention in right of their parentage and of the industrious and inventive labour bestowed upon their construction. A strong and capable administrator must possess as one of the signal marks of capacity this self-denial and vigour to recede from positions, to demolish plans, the impotence of which clearer vision and the stress of conditions reveal, and ruthlessly and hopefully to face fresh aspects and devise wider schemes without a momentary fear of possible charges of inconsistency. Contraction is often the sole condition of expansion, and a resolute retreat to regather forces and

reconcentrate order and energy will often prove the precursor and guarantee of ultimate triumph. No more gracious or potent quality exists in the purposeful intercourse of men than that of tact, or judicious conciliatoriness of disposition resting upon a genuine goodwill and a cordial admission of the claims and rights of others. And this spacious form of character can only receive its cultivation amid the rivalries and commercial contentions of men. A quality, however, not to be used as a mode of concealment of intentions and a guise for secret designs: not a concession to aggressiveness or a veil to personal weakness and instability of nature,—for it is most conspicuously and gracefully displayed in the most vigorous and independent characters,—but a benign and genuine power,—founded upon a basis of high principles and righteous motives,—of smoothing difficulties, reconciling oppugnant dispositions, preserving a delicate sense of proportion and discrimination; concentrating the attention upon the material elements of discussion and negotiation without the exaltation into prominence of minor and irrelevant considerations; conceding with cordiality; maintaining with courteous vigour; and thus exhibiting the result of facilitating business and, above all, of inciting and fostering a feeling of attraction to the company which the administrator represents and an unquestioning confidence in its dealings. Not simply want of practical vision but further (unconscious) disloyalty to the office are signified by the boast which may on some occasions be employed by officials that a troublesome correspondent has received a deserved "dressing"—to use the common phrase. But personal "smartness" (so-named) in communicating with the public may mean discredit and disadvantage to the company. The administrator will remember in all his public relations that he is clothed with the dignity and authority of his office, and that not infrequently a courteous answer to even insolent attacks, not merely sustains the prestige of the corporation, which should act serenely above all calumny, but may also prove effective in converting hostility into cordiality of aid.

The administrator is concerned exclusively with the prosecution of his company's aims: attacks must, of course, with the approval of the Board, be judiciously and effectually confronted and exposed, but animadversions by him upon extraneous subjects, such, for example, as the administration and financial soundness of other

competing corporations, lie entirely outside the administrator's responsible and official province. He is compelled of course—not publicly but in response to his subordinate managers and agents—to compare the capabilities of his company with the attractions of others, but this course obviously should be pursued with the expression of a broad-minded admission of the benefits which the competitors can confer. The vast proportion of mistakes in official judgments and discretion would be averted if our correspondence were conducted in the spirit that the character of our references to rivals might unhesitatingly be proclaimed in public. Intellectual superiority, organising faculty in a rare form, enterprising energy, and alert resourcefulness thus forfeit their appropriate reward unless the character be completed by this attractive and humanizing endowment. Confronted in business with men of every shade and degree of temperament, both grateful and repugnant, with views and claims justly challenging the respect and deference which appertain to our own, no solvent or medicine adapted to every description of infirmity in intercourse compares in efficacy with this fine and universal palliative. With the admitted value of this refined gift, the contention with which we started, that administrative achievements rest solidly upon a moral equally as upon a mental basis, is amply justified.

Another accession of knowledge of permanent worth is also the product of commercial intercourse,—the sense of humility with, in large-minded men, the attendant qualities of ready teachableness by experience and a just estimate of self. The lesson is learnt—abasing but salutary—that no one man is essential in any department of business or life; that the affairs of the world, whether the broader world of enterprise or the stricter sphere of professional work, would proceed as orderly and efficiently without our aid and strenuousness. Progressive advance would otherwise be arrested. This conception of the limitation of our faculties and the comparatively insignificant value of our personality as an integral element of activities and success, constitute, when wisely accepted, not an influence of depression but an inspiring factor in the formation of a more receptive and disciplined mood of character.

Clearness of perception and alertness and rapidity of consequent act are often misconstrued as exhaustiveness of survey and sureness of effort. Some of the quickest-witted men, whose gift of intellectual

and practical apprehension has seemingly amounted to the fulness of a concentrated and instantaneous intuition, utterly alien from the protracted and laboured inspection to which the majority of us are confined, have distinctly and disastrously forfeited their just career simply for the reason—and iterated example has confirmed the conclusion—that readiness and vividness of perception have been deemed equivalent to a completely comprehensive view. But some point or aspect of the question has remained undetected, and therefore unassessed and unprovided; most points have been seen with penetrative lucidity, but the fatal and unrecognised element has sufficed to ruin the adopted course; steady and deliberate survey which, so to speak, unifies the several parts of a problem surpasses the acutest glance which so frequently misinterprets clearness for adequacy.

A strong grasp of a question, as it is termed, does not consist in fragmentary hold of its distinctive parts, confirmed and often further deluded as it is by vigorous assertion and decided measures, but in comprehensive grip of it as a unity. A sagacious observer once remarked of a statesman who was generally reputed to be the possessor of a vigorous "grasp" that he might more aptly be described as one who succeeded in obtaining a strong "nip" of the problem only.

An additional teaching of importance is acquired from this familiar intercourse in general business affairs. The command of temper is one of the most efficient aids to firm and respected management. By the self-discipline thus induced we learn that other persons are as able as ourselves; that every question possesses more than one aspect; that the wise words of Epictetus are universally true that every practical question is fitted with two handles by one of which alone it can be serviceably lifted for its intended use; that portable formulæ will not necessarily solve every description of problem; that respect must be accorded to opposing views, and plans frequently modified in adjustment to exigencies of situation and the temperaments and desires of other men. The serenity of judgment—and judgment only holds her regal and puissant sway in mental and moral calm—is simply competent when passion and vehemence are autocratically held in subjection as an habitual mode of life. "The still, strong man": strong because still. The utterance of reproof, for example, in anger

cancels its educational and corrective force, while annulling that respect for the utterer which confers upon rebuke its impressive weight. Righteous indignation is a different form of consciousness and derives its power from the recognition by the reproved of the pure and disinterested fount of character whence it flows. The term " passion " reminds us by its etymology that a temporary suppression has intervened of the serene control of thought and will, so that the character is dominated by an alien force ; and the slave can never be the author of rebukes which carry amelioration or of commands where wisdom is enshrined. Reproof should also convey to the mind of the reproved a sense of the existence behind the reprimand of no fretful or impatient chafing at the thwarting of the reprover's will, but rather of a considerate earnestness to reform the character which has transgressed. The supreme value of this quality of self-restraint in inspiring confidence and respect may be incidentally noted in the administrator's relations with his subordinate managers, and the public. The creation of an *esprit de corps*, fertile in the unison of all the workers in a co-operation of successful accomplishment, is largely dependent upon the respect and feeling of honour entertained for the administrator in his personal, no less than in his official, character, and in the recognition of his reverence for justice. For the head of an office is not solely the mainspring of a series of parts in a piece of machinery : he is, or should be, equally the superior and guide of men with hopes and ambitions similar to our own, for whom, by virtue of their union under his direction and responsibility, he has accepted the duty of training both as competent instruments of work and also as claimants for the amplest development of their individual natures and capacities, so far as his example and temporary control extend. The public, again, from experience of the administrator's tact and equitable action, as potent as the recognition of his ability, feel a genuine force of attraction to the company he represents, since attachment to an office rests not exclusively upon its financial soundness and liberality of judgment but also, and appreciably, upon the personal qualifications of the man with whom transactions require to be arranged. It often fails to be considered to what a wide extent the successful development of a business and its hold upon public choice, are affected, apart from the intrinsic merits of its stability and commercial reputation, by the personality of the

administrator himself. Popularity is personal no less than corporate.

We have already remarked that one of the distinguishing attributes of a soundly-equipped administrator consists of the moral courage and solidity of character which can radically modify or withdraw a cherished scheme of administration when its maladjustment becomes manifest; the vigilance and promptitude of seizing the ready moment when changes are capable of smooth introduction, and without regard to the possibility of the charge of inconsistency or instability of purpose. The question of the importation of reforms has been discussed from two aspects; whether alterations of method, either of plan or execution, particularly those of material moment, should be immediate and summary or should be effected by gradation. A medley of irrelevant and mutually oppugnant analogies are often cited on each side of the contention. It is true that instances may occur which present exceptions to any comprehensive rule, but generally it will be discovered that since the efficiency of change, besides its rightness and fitness, is dependent upon the adoption of the line of direction of least resistance and the consequent avoidance of friction, a decisive and instant act creates, it may be, a strong mass of adverse feeling for a time which will speedily become exhausted and forgotten, while a series of graduated and experimental acts simply tends to perpetuate and periodically reconcentrate these feelings over a more extended term. Without the implication of any argument, a rapid, mechanical motion produces a certain amount of friction at any given point which a more deliberate motion simply prolongs. In decisions upon problems of this nature analogies derived from alien sources, though apparently luminous in directiveness at the first aspect, assume a confused and indeterminate character precisely at the point where the process of interpretation begins. One special qualification may be adduced which a wise expediency occasionally suggests. On entering the service of a company with an enthusiastic attachment to modern and more finished conceptions of modes of work, the administrator will sometimes find that the existing methods are cumbrous and antiquated, adapted rather to the retardation than the ready simplicity of management. And it will often be discovered to prove the more advisable course that radical reforms should be temporarily deferred in order to avoid

the friction and loss of easy working which may be induced by unaccustomed methods in minds habituated to an inveterate routine.

No problem involves a wider significance in management than that of the extent of time and attention proper to be devoted by the administrator to details. In mechanics when the testing pressure is applied the most ingenious and solidly-constructed combination of parts will be dependent for fulfilment of the end for which they are organised upon the material integrity and sustaining capacity of the minutest link; and equally in management, a close and scrupulous mastery of details forms as essential an element of accomplishment as the skill which devised, and the vigilant energy which superintends, the plan. On the other hand no more enervating agency can be conceived to vivacity of mind, freshness of perception, vigour of inventiveness, and mastery of method, which management exacts, than an engrossing immersion in details and routine. Routine not merely obstructs but impairs original and serviceable capacity: details dissipate and neutralize productive administrative power. Between the admitted necessity of the studious command of details, and the impoverishing influence which intimate attention entails, what mode of reconciliation is practicable? The administrator, while fully appreciating their intrinsic importance and possessing, from training, a confident grasp, must resolutely entrust their orderly execution to skilled and conscientious subordinates if in any effective form he is to retain the alertness and openness of intellect, copiousness of resource, and unfettered governing power which predict success. Indeed, a main criterion of capable management is presented by the choice whether the administrator mars his inventive and organising capabilities by the enfeebling burden of details or wisely relegates their conduct in the mode suggested and thus, while maintaining an efficient and general supervision, releases his energy for the more imperative and creative functions of his post, fearless (and as regards his primary mission, regardless) of the errors and difficulties incidental to all human enterprise. The scientific doctrine of the Conservation and Distribution of Force must be applied. In the universe, equally so in man, the sum of the energies, motive and potential, forms a constant quantity: augmentation of force in one shape or direction is simply secured by an

equivalent diminution in some different form: the total constancy is rigorously maintained in all the interchanges which incessantly produce ever-varying proportions in the modes of power: and since this teaching embraces the human intellect, minute assiduity in details can only be purchased by a diminished mental energy in more exalted regions of labour and responsible activity. A thinker and observer, almost equally eminent in the investigation of physical and mental phenomena and in the practical concerns of life, has well remarked that, while it is not the province of an administrator to dwell upon minute affairs which are isolated, the integration of the effects of their constant recurrence is worthy of the thought of the greatest administrative mind. The question of undue absorption in details possesses an additional implication of possibly deeper moment. No section of an administrator's duties require closer and more assiduous care and arrangement than his official relationship to the public, and especially in connection with personal interviews. These interviews are frequently tedious and unprofitable and involve apparently in many instances a disorganisation of useful time. But tact, courtesy, and patient attention should be devoted to the most wearisome as to the most productive. For the public form the materials and measure of our success; and a scant or hasty or unwilling tolerance of their visits may produce an adverse effect upon results in business far exceeding in extent and value the expenditure of an interested and considerate allotment of time and concern. The neglect of seemingly insignificant causes (such as the value which each member of the public attaches to personal attention) has often deprived an admirable system of management, so far as the personal element is regarded, of an appreciable proportion of its success. And since prolonged devotion to details narrows the time and opportunity that might be expended in this conciliatory direction, the doctrine already expressed receives emphatic confirmation. Before treating of other prominent aspects of the subject,—and it is difficult in a wide question like management (which from its nature is somewhat discursive in form) to preserve a scientific sequence of exposition,—it will be desirable to devote a brief space to the question of the supervision of the staff and branches as an element of administration. As regards the members of the staff we have adverted to the implicit responsibility devolving upon the administrator, so

far as his opportunities in business will reasonably admit, to devote earnest attention, personally and by means of the machinery of organisation,—particularly in the discriminative choice of heads of departments,—to the development of character and ability in the youths under his sway as the subjects of hopeful and depressive influences. With a further view to this end attempts of a systematic kind should be arranged to promote social meetings of the staff at which the administrator should as frequently as possible be present in order that a more intimate and friendly intercourse and mutual knowledge may be established than are practicable of attainment amid the pressure and occupations of daily life, and where the frictions incidental to the strain of work may find their keenness and memory vanish under the geniality of changed conditions. This interested communion forms a fruitful source of mutual regard and confidence and an efficient incentive to more zealous devotion to the common interests of the corporation in which, within their several spheres and proportioned capacities, the chief and his subordinates are with equal loyalty concerned. It need scarcely be remarked that the institution of athletic sports among the staff serves as a most helpful agency of union and stimulus. No more accredited aid to the promotion of moral character, for example,—particularly during the ardent and plastic period of youth,—can be devised than innocent, healthful relaxations which divert and refresh jaded energies, narrowed by largely monotonous toil, and provide a means of exit for superabundant physical energy by happy deflection frequently from gross and deteriorating channels. The wise administrator will so cooperate in these meetings that while the property of official position cannot be wholly abrogated it will merge into genial fellowship, and the staff will tend to welcome him spontaneously as their well-wisher free, through his judiciousness of action, from all suspicion of *surveillance*,—an evidence of friendly interest and a recognition of official comradeship, however wide be the interval between their ranks. We have referred to the form of reproof for ignorance, carelessness, or default of any kind as worthy of thoughtful and careful concern, so that the intended effect of amelioration may be evident and sure. It might be added that rebuke administered in the presence of the delinquent's colleagues, though occasionally requisite for general impressiveness, is often a mistake in tactics

and a barrier to its designed result. Firm but restrained reproof in private, revealing, while maintaining the distinctive and primary end of official authority, the manifest signs of personal interest and concern, can the more readily transform the rebellious into orderly and loyal citizens of the business commonwealth. Rebuke of the head of a department in the presence of any of his subordinates, save under circumstances of a critical character, is a grave offence against his office and the maintenance of command. In insight and sympathy alone resides persuasive power. It is the unthinking only who minimize the force of Feeling in commercial success. Their customary mode of stricture consists in the epithet of "sentimental" as though, in their ignorance, sentiment and feeling either etymologically or significantly differed. The universal motive power in all enterprises is desire,—a form of feeling: the intellect does *not* originate effort: its function is limited to conceiving the desired end with clearness in order that it may fashion the appropriate means for its attainment.

The branch managers are the tributary and valued sources of a considerable portion of a company's business, and upon their capacity and discretion prominently depends its local reputation. Here surety and wisdom of selection is of primary consequence founded both upon character, courtesy of manners, technical and general business qualifications: and here also obviously the administrator's sagacity in choice is conspicuous and vital. Parenthetically it may be added that this power and felicity of Selection are peculiarly material in the appointment of Managers abroad. From the necessities of the case, an intimate and instant supervision of foreign management is impracticable; a deeper confidence consequently must be reposed; and the valid results of this confidence depend upon the wisdom of the original choice. As we have already noted, this native and cultured discernment of character and ability, on which the security of selection rests, constitutes one of the most prominent signs of administrative fitness. It is an essential adjunct to administration that the chief officer should visit the branch managers occasionally for the purpose of scanning the business position with his own eyes, and cultivating the personal acquaintance of these officials, with the result of stimulation and added interest which genial intercourse maintains. A cordiality of union, with the accession of vigorous

zeal sequent to personal interest and encouragement, is fostered in an appreciable degree by individual contact. The constant substitution of deputies is strikingly less effective.

General experience has enforced the teaching of the significant importance of a judicious and discerning care in the mode of communicating with these officers, and the observation applies with increased force to the public. For success in all departments of work, the peculiarities of men's characters, their diverse modes of impression and response, should be studied and respected; and a form of letter which would avail to animate one would produce depression in another, and in a third, a sense of injustice. Hence stereotyped and routine forms of address fail in their contemplated purposes, and the trouble is worth incurring, in the promotion of the company's interests, of recognising individual idiosyncrasies and adapting the style of communication in suitability with disposition. A helpful instrument towards the whole-hearted co-operation of subordinate officials—since a sympathetic regard to personal feelings lies at the foundation of vigorous and hopeful work,—consists in the arrangement of occasional social interviews at the head office in the "undress" of friendly intercourse and mutual suggestiveness.

It is a valuable plan at the head office that, after the letters have been distributed, the administrator, on any special requirements for the day's work, and on all important occasions as necessities arise, should hold a conference with the heads of departments. This course is also recommended in the report of the Commission which has been cited. Helpful suggestions may frequently be offered to an open and patient mind; the entire office is placed in a condition of uniformity of plan and action; and confidence is strengthened by the concession of consultation. Though the authority and initiation of the administrator will be paramount and final, counsel or light may often be elicited from a common deliberation. The administrator, again, should not be sparing of encouragement where desert is shown. Work is better accomplished and more strenuous efforts attempted when a spirit of overt appreciation generously prevails. Action reacts.

The discerning treatment of error need only be briefly noticed. We are too generally tempted, through our limitation of clear, calm, and patient survey and enquiry, and amid the stress of instant

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feeling of indignation at mistakes, to judge of errors in the gross without applying that nicety and justness of discrimination which the varieties of error suggest, and that equitable estimate of their causes which a well-balanced judgment in the administrator gradually learns to institute and pursue.

The duties and relations of the administrator to the board of directors may be passingly noted. It would be impracticable, and indeed a two-fold waste both of the time and attention of a strenuous board and of the administrator's energy and responsibility, to submit practically every point of management to the directors, but—unless any proposed changes or acts are radical, far-reaching in consequences, or interruptive of an established course, when obviously the suggested measures should receive the prior sanction of the board,—the appropriate procedure would appear to be that any acts adopted by the administrator, except on routine affairs and in details of management pursuant to general plans formally approved, should at once be reported to the directors so that a prompt opportunity may be afforded to them for criticism, approval, or dissent. By virtue of his position and deputed responsibility an ample discretion of personal decision is properly confided to the administrator in whom the utmost trust would be reposed. And the administrator will bear perpetually in mind that if unhappy consequences ensue from any of his acts, the unfortunate result will also attach to the board whose reputation accordingly as partially dependent upon his sagacity and discretion he will conscientiously conserve. Hence without servility, or the attitude of a superior clerk, but with the self-respect due to his character, ability and position, which a board would recognise and appreciate, it will prove a sufficient guide to add that the fullest frankness with the directors, the disclosure of the completest information, and the submission to the board of courses of procedure which he deems to be important to the company's welfare, should be punctually and honourably observed. The board are the authoritative and responsible guardians of the corporation and an unswerving union of personal regard as of common interests should exist between the chief official and themselves. And a similar trust should prevail between the chief official himself and his subordinates. Let the selection of the principal officer by the directors and the choice of under-officials by the chief be as rigorous and

searching as possible in order that men of high moral character, intellectual capacity, exact fitness for position, administrative and executive aptitude may alone be appointed, and having pursued this exhanstive course the administrator should be entrusted by the board and the officials by the administrator with undeviating and unqualified confidence. In the days prior to the Tennysonian era the students of modern poetry hailed the verses and dramas of Sir Henry Taylor (himself a responsible and experienced Government servant,) as a welcome and stimulating power ; and no nobler or juster passage occurs in connection with this subject than the fine boast of Philip Van Artevelde :—

> " It ever was my way, and shall be still,
> When I do trust a man, to trust him wholly."

In extension of this subject a reference may be suitably inserted to the degenerate habit of suspicion. Magnanimity of character is unachievable where this vice prevails : it is a fundamental mark of the strong and simple nature which is itself loyal and unswerving to the truth, to believe, by virtue of its own purity of spirit, in the goodness of others. Violations of confidence will occur, but these events should only induce a more careful watchfulness in the selection of men ; and the character, if it is to continue steadfast and inviolable in its large-hearted freedom from this quality of degradation still retains unperturbed its generous attitude of trust. It has been stated as a conclusion of wide observation by a most sagacious and distinguished administrator that this habitude of soul would save us from ten erroneous judgments for every mistaken judgment into which this fine attribute would lead. The dominance of suspiciousness causes things to be seen which do not exist ; creates a gradual deterioration of nature ; induces evasion and want of ingenuousness in those whom it affects ; and abolishes that serenity of mind and consequent accuracy of judgment and action which conduct permanently and surely to successful issues.

A serious fault of some administrators is the pronounced intrusion into every action and department of work of their own personality. Lord Bacon has condemned this course in its tendency to make the administrator " cheap," but the valid objection lies in the fact that it fails to promote the general interests of the business and to restrain and depress the capacity of the subordinate workers.

It entails the former consequence by tending to render the ordinary conduct of affairs too dependent upon the existence and ability of a single mind: while the latter result is engendered not merely by the failure of affording scope to the spontaneous capabilities and energies of competent subordinates but also, in cases that cannot be described as solitary or extreme, of arresting and obstructing the original and useful flow of those capacities through the overpowering domination and impress of a personality far more penetrating than their own. A company may thus be deprived of the fullest and freest exercise of the powers which the under officials could advantageously display in the accomplishment of its ends. It has frequently happened that men of natural intellectual gifts, of discreet judgment, and of exceptional aptitude have, while under the immediate dominance of a strong pervading personality relinquished as on compulsion—the psychological causes of which might reasonably be assigned—the natural display of abilities which, when removed from this compelling and depressive influence, shine and operate with conspicuous force and utility. The strong administrator, therefore, should be judicious in avoiding the impression too distinctly and permanently upon his officers of the vigour and insistence of his own personality in the execution of their duties, and studiously employing it rather as a genial and unautocratic force in the way of eliciting and seconding their independent capacities and thus concentrating and utilizing the more materially the united energies and qualifications of the staff.

In the conduct of interviews, conferences and negotiations, two observations require only to be submitted. The administrator on many subtle and significant questions discussed with men probably of wider or more specialized experience generally, and larger natural and trained capabilities than his own, would frequently and properly accept a secondary position if he were acting for himself and concerned exclusively with his humbler self, but he will remember, though with judiciousness and tact, that he enters into these discussions, not in the minor form of his own personality, but clothed with the authority and dignity of the company which he represents. Hence his words and suggestions will assume a bolder and more decisive form than would his utterances as a private individual, and on this ground, further, they, as affecting his office, will be the more deliberately measured, the more

exactly expressed, and the more conciliatorily though firmly enforced. In preliminary conferences of a private and important nature it may justly be suggested that the results of the negotiations should be reduced to writing in confidence and assented to by both sides before any consequent action is adopted, or any disclosure published by either of the purport of the concluded agreement. In comparatively recent times a conference which might perhaps be fairly described as part of history reached a certain stage which each negotiator apparently endorsed: both were men of conspicuous intelligence, keen and incisive minds, and given to exactitude of thought and phrase; and yet when the one proclaimed at the fitting period the result understood to have been attained in the discussion, the other at once retorted that no such conclusion had been conceded on his part. And the circumstances entirely forbade the suggestion of want of good faith on either side. In another instance two able public men conferred upon a question of grave importance; an agreement was arrived at verbally, and yet again the respective public declarations of the nature of the policy assumed to have been mutually accepted were absolutely and *ex toto* divergent. These illustrations warn us of the constant possibility of erroneousness of impression or remembrance and thus enforce emphatically the suggestion that all important results of private conferences and deliberations should be embodied in writing at the time, and (if necessary, conditionally) signed, though honourably retained in confidence until the period of publication with the consent of both has arrived.

The import and principle of Compromise has unhappily from various causes lapsed to some extent into a sense of insincerity of intention and vacillation of purpose. But a sagacious, opportune and righteous compromise is a valid condition of all extensive and important actions in every sphere of life and activity. The conception of compromise, as an able writer has pointed out, is essentially one of boundaries or demarcations between opposing conditions. Each man possesses the right of independent thought and action, but by virtue of the necessities of associated life his claim must frequently clash with the equally valid counter-claims of others. To what extent then should the views and convictions of others count as controlling forces conditioning the action of any individual who seeks to enforce his own judgments and feelings?

How far is it equitable and consistent to recognise by adequate concessions the rights (or even the prejudices, it may be) of others without abrogation of our own opinions and intentions or disloyalty to our personal beliefs? It is obvious that combined life would be subverted if compromise were attempted to be evaded; compromise is simply a just admission of rights resident in others equal in validity to our own, and even under circumstances where the capacity of wise and comprehensive judgment is vastly superior on the one side or the other; it adopts where the contemplated course is impracticable the line of least resistance: it accepts cordially and as an inherent condition of life and achievement the single, steady step towards reform where the hoped-for and sanguine leap is seen to be futile to expect: it gracefully and gratefully grasps a fraction of the benefit which cannot yet be secured in completeness with the knowledge that something at least has been accomplished and in the hope of riper fulfilment. But apart from utilitarian motives the principal consideration attaching to compromise lies in the frank admission that on all questions of width and moment different views must necessarily exist, and that the fundamental law of liberty must be readily conceded that every person is entitled to complete freedom of action consonant with the grant of an equivalent liberty to others. Hence the necessity of compromise being inevitable in the nature of things, the prime consideration is its righteousness of principle, its consistency with integrity of character, and its harmony with the spirit of the desired change or act. Thus the conception of confines or boundaries arises which separate a judicious suspense in forming opinions, a wisdom of reserve in their expression, a just delay in their realization, from disguised disingenuousness, deliberate dissimulation, and indolence or want of courage.

The vital need of organising aptitude in the administrator, with its associated qualities, has been sufficiently discussed; and a reference may fittingly be introduced to the dual department in which the most effective utilization of his abilities can be accomplished: financial administration and economical management.

In fire, marine, and businesses of similar structure, financial capacity is not so urgent as in life assurance: still the possession of skill, insight and knowledge in financial operations affords a material aid to the augmentation of reserves and the contributions

to dividends. In life assurance, however, the attribute of financial experience and aptitude is essential; and without enlarging upon the detailed considerations which have been elsewhere discussed by the author, the genuine powers of the administrator here discover a fertile domain taxing, for its adequate cultivation, the largest capacities and most sagacious foresight, and forming the necessary foundation of stable reserves and remunerative results. The life administrator should be imperatively a trained financier.

The question of economy may also be passed by with brief comment, since the principles underlying and governing its exercise have also been considered at length in a former treatise. It may be noted that in the earlier stages of a company's existence the pressure of heavy expenditure upon profits, when the amount of new business acquired stands in appreciable proportion to the total premium income, will not prove distinctly perceptible, since it is partially counterbalanced, or rather obscured, by the beneficial effect of the selection of lives (that is, the temporary reduction of the general rate of mortality) unless selection should be specifically discounted in the valuation by an appropriate augmentation of the reserves (where out of a given number of entrants a larger proportion must be expected to survive for whose ultimate claims provision must be preserved). But when the aggregate of the annual new business ceases to exhibit this appreciably substantial relation to the entire mass, the influence of excessive expenditure will begin to operate with evident effect. And foresight even more than insight marks competency of management.

A wise statesman has embodied the results of a lengthened and observant survey in the dictum that economy constitutes the primary article in all financial creeds; that unhappily with the increase of expenditure the spirit of enlarged expenditure concurrently developes; and that whatever be the censure or ridicule of the ignorant and thoughtless, a financier's strength of character and adequacy of administration are most impressively and signally exhibited in effecting those small, unconsidered, and apparently insignificant savings which, minute and fragmentary in themselves, involve a profound import not merely in their gradual and almost imperceptible expansion and material aggregation but also in the effect which their neglect entails upon aptitude through inducing a regardless and demoralizing habit.

Decisions form the critical moments on which success or failure rests. Some require to be instant; and here (omitting consideration of personal capacity and knowledge) their validity will largely depend upon the copiousness of remembered results of practical instances of judgments which the administrator has himself experienced or has gathered from observation under the aspect of causality, and upon the swiftness and sureness of comparison, and selection of the instance essentially similar to the problem awaiting solution. It is true that for a required decision no guide may apparently exist in the past; but it is obvious that looking to the infinite series of completed transactions and the permanency of motives which actuate men in business affairs every seemingly fresh and isolated problem is simply a repetition of problems that have already been successfully or erroneously resolved time after time. Hence the value, in decisions demanding promptitude, of a well-stored memory of practical and analogous examples and their results. Many decisions, however, and especially those of a complicated nature admit the command of time for deliberation; and a writer, who has been styled the "great genius of prudential calculation," devised a method—which he termed moral or prudential algebra—which has been found of remarkable practical utility. In doubtful and complex cases the difficulty lies in the fact that the whole of the reasons for either course generally fail to be present simultaneously to the mind, so that an exhaustive survey and proportioned estimate cannot be made; and further that consonant with the peculiar tone of feeling or thought at one time, the motives then in evidence gain or lose an impressiveness beyond their intrinsic merits. Hence it was suggested that in one column of a sheet should be inserted day by day the reasons which favoured a certain course, and in another column, the adverse motives. These are submitted to judgment in its differing moods and at different times. If any reason balance an opposite one the two are cancelled; or two on one side may be deemed to be equivalent to three on the other when the whole five would be expunged. In this way the record is reduced and the appropriate decision becomes finally apparent.* Any expedient is valuable which tends

* The principle of this scheme, so far as we can trace, was first furnished in Lord Bacon's Antitheta, or Commonplaces: (Advancement of Learning, Book VI., chapter iii.).

to clarify the judgment and confer a sense of surety ; and the plan just described is frequently of almost incalculable moment in securing adequacy of decision. For the gravest errors of practical life are commonly attributable to rashness and impatience ; results are demanded prior to their opportune time of advent, and it is constantly forgotten that a prudent delay in judgment and action forms frequently the condition and assurance of success or of a higher and more sustained success.

The important rule applies to decisions that their definite formation should be deferred until the period for action has approached. For if a decision be fixed at an early stage the mind becomes settled into a mechanical attitude, and fresh circumstances that may occur between decision and act which may materially affect the issue fail to secure their appropriate attention and valuation owing to mental unreceptivity. If, however, the mind be kept fluid, so to speak, and free from crystallization into a rigid form, though rightly saturated by meditation upon the question, any novel facts are capable of being alertly seized, surveyed, and adjusted, and the final decision becomes the more valid by its comprehension of the entire series of considerations which should control and guide.

It may be suggested that in the preceding exposition we have delineated an ideal character remote from the infirmities and contingencies of practical life. But such a comment, it is firmly retorted, would be simply due to an erroneous and misleading conception of the meaning and power of the Ideal. The terms embodying and signalizing historic notions, historic personalities, and the noble historical philosophies from which those terms originated and from which they derive their impressive and imperative force are constantly being degraded by loose colloquial usage (of which the precise terms of " crux " and " logic " are corresponding illustrations) so that the fine traditionary and motive import of their original service has almost irreparably vanished, and technical language generally of exquisite finish and significance descends to a baser employment and a deteriorated value in the intellectual and moral currency of thought and feeling. We retain the term ideal—not in an ignorant sense (as synonymous with the fanciful or purely arbitrary), but in the primitive significance impressed upon its face by the great thinker and writer himself, of a fashioned and completed archetype or consummate pattern of which all

human efforts are the studied imitations, enlarging in approximate similitude to the type in proportion to the earnestness and solicitude with which it is pursued. It has been excellently stated that the ideal inspires; and to this dictum we would add the no less lucid implication that it acts as guide. No life, no thought, no department of energy can be rightly governed or directed unless the idea of its "full-orbed" completeness be conceived and steadily maintained both as the stimulus and goal.

A parting allusion may be offered to the intrinsic value of a general cultivation of the mind and range of emotion of the administrator. Even on merely utilitarian grounds this course is imperative in its distinctive power of refreshing and reconcentrating even the faculties which are employed in commerce to a more competent exercise. We would rather base the advice upon the obligation implicitly imposed upon every man to secure a finished construction of character and capacity, so that, not confined to the contracted boundaries of a mere actor in a restricted sphere, he may ascend to the higher altitude of a more symmetrically fashioned nature. But let us assess the importance of the suggestion for a moment, and with the preceding demur, upon the grounds of utility alone adapted and exemplified in the industrial activities of life. Metaphors and analogies derived from alien conceptions and applied to the interpretation of mind are always precarious and usually fallacious: no illusory attempt of this description is here essayed; but the recognised phenomena of mental experience may be cited without the implication of any ultimate analysis of the constitution of consciousness itself. It is of universal observation that alternate rest and service of faculty form natural conditions of development and abiding power; the severe concentration of intellect, for example, upon physical problems impoverishes for a time the vigour of the faculties employed: the cessation of that form of investigation and the exercise of the mind in artistic or literary themes, or the engagement of the emotions and intellect in social work, while cultivating these aptitudes of a completer character in such special directions, afford rest and invigoration to the capacities previously applied to the search for scientific truth, so that after this recreation (in the true sense of the term, —*reforming*), the problems of physics and mathematics can be attacked with a sustained capability and a renovated sense of

freedom of power. A similar observation extends to the faculties engaged in business affairs. Hence the energies of mind utilized in professional and commercial work are naturally restored to unimpaired and spontaneous freshness of vigour if, during the intervals which intervene between their service, the remaining powers of mind be devoted to dissimilar spheres of intellectual interest and toil. It is not mere quiescence of faculty that renews, but the substituted activity of other faculties. Varied work never injures or enfeebles; change of employment of capacities it is which forms the condition of restoration of mental lassitude; and this interchange and diversity of mental operation provide concurrently a remedy for temporary exhaustion and a stimulus, inherent in all natural associations of structure and function, to the enlargement, incitement and regenerated serviceableness of the intellectual abilities as a whole. (Though it may possibly be regarded as pedantic, the author desires again to enforce that the mind is a unity and not simply a collection of faculties, and that the illustrations adduced do not express any hypothesis of mental analysis but merely display recognised and universal facts of observation.) Besides the refreshened condition thus bestowed upon the powers concerned in daily toil and competition by the intermediate exercise of other capacities of mind, the steadfast pursuit of this general cultivation exalts the administrator beyond the boundaries of narrow and mechanical routine and enables him to attain the region where alone is possible the accomplishment of a completer life.

CHAPTER III.

An Exposition of the Leading Principles of Book-keeping.

By T. E. Young.

A brief explanation of the *general* principles upon which systematic book-keeping is based will prove serviceable as an introduction to the subsequent chapters in which those principles are applied to the modes of account appropriate to insurance business.

The exact meaning of the processes of book-keeping is occasionally somewhat obscured by a needless profusion of illustrative examples, and multiplicity of details does not necessarily conduce to mental apprehension. The humble attempt pursued in this chapter aims at brevity and clearness in the statement of principles alone, which, once grasped and pondered over, will reduce apparently complicated methods to intelligible forms. A few notes are added upon special instances which occur in insurance practice.

Each single commercial transaction obviously, as regards the merchant or company concerned, comprises two effects, or more exactly expressed, presents a two-fold aspect; in primitive barter we have the transfer of one commodity on receipt of a different commodity, while in more modern commerce we have the handing over of money's worth* or money in exchange for money or money's worth. (It may be incidentally pointed out that in commerce, which involves the use of money, exchanges are still essentially acts of barter of one useful commodity for another, but the original single act of barter is divided into two acts by employing money as the medium of transfer, with the significant advantage, however, that the two acts are easier to effect than the primitive single act since (unlike barter) they need not be arranged with the same person. Thus, if A desires to exchange a horse for a carriage he must, in barter, discover a person who

* "Money's worth" includes material articles such as Wool or Wine, and documents of pecuniary value dependent upon the credit (or moral and financial trustworthiness) of those who offer them in exchange, such as Bills of Exchange, Bills of Lading, Policies of Insurance, and so on

wishes to exchange a carriage for a horse; in commerce, however, where money is utilized, A sells the horse to B for cash and with the proceeds purchases a carriage from C.) Each transaction then necessarily involving these two operations,—a receipt and a disbursement, a giver and a receiver,—suggests the corresponding plan of a double entry of record in each instance, where in the one (or receiving) account an entry is made of the acquired article (or rather its pecuniary value or cost) by which the account is increased, while in another (or expending) account a concurrent statement is also entered of the amount so disbursed or given in the exchange, by which accordingly it is diminished. (The amount parted with on each occasion of exchange might of course be deducted from the individual account, but the clearer course was soon found to be presented by the apportionment of one side of each separate account to the entry of the sums acquired (called the debtor side), and the other side to the record of the sums given out or expended (that is, the creditor side).)

In expressing thus the double effect of every transaction, one account becomes debtor to some other account from which it receives and creditor by some other account in respect of what it expends or discharges. The student has been familiar with the principle of double entry from his schooldays, for while in the multiplication table the number 48, for example, occurs only once as a number, two entries of it are recorded in the different forms of 8 multiplied by 6 and 6 multiplied by 8,—corresponding with the appearance of the single commercial exchange in the two modes of the same entry being made on the one side of one account and on the opposite side of another account.

Thus the distinguishing feature of double entry consists in the circumstance that all the facts or pecuniary transactions are registered,—and the net result of the several transactions arrived at—by a double process, where the one operates as a check upon the other,—the principle of the double entry method, as has been already stated, being that every fact recorded in the books and transferred to the ledger is entered twice—once, namely, on the left-hand, or debtor, side of one account, and again simultaneously on the right-hand, or creditor, side of another account. The account which gives out or expends the item (say, for example, money) is the creditor and the account receiving it is the debtor,

so that the aggregate sum of the whole of the debtor entries in the ledger is precisely equivalent with the aggregate amount of the entire creditor entries. Thus the accounts by this process are kept in a state of constant equilibrium. The value of this comparison and correspondence of totals will hereafter be mentioned. The debtor side of an account accordingly expresses the receipts or income, and the entry of the receipts is termed the debiting of the account; the creditor side expresses expenditure or outgo and the entry of each amount is styled the crediting of the account. For the entries on the debtor side the account is responsible, or has to render account, or be answerable for the items entrusted to its charge, and this fulfilment of responsibility is effected on the creditor side by showing how the items have been actually disposed of and also exhibiting as a balance the sum or value of the items remaining in hand, and therefore still held in charge, if this be the case. The debtor side binds the account to a responsibility for the goods or money confided to its keeping, and the creditor side relieves the account from that liability by stating how the trust has been discharged. A familiar example may be adduced from general accounts. Goods are sold for £150: here goods being parted with, the goods' account is relieved of a portion of its trust and is accordingly credited with the amount, while on the other hand the cash account must be debited with the price as having received it and thus becoming responsible for the item. Goods are purchased for £100; here the cash account parts with £100 and is consequently credited as being released so far from its responsibility. The goods' account having received the additional item is debited as incurring this further liability. Thus the two debtor sides on the two transactions equal in total the two creditor sides (£250 and £250), and verification of the accounts is thus obtained. In the former instance the formula employed would be "goods creditor by cash," and "cash debtor to goods"; in the latter, "goods debtor to cash," and "cash creditor by goods." An able mathematician suggested many years ago that the student's initial difficulty in comprehending the statement that accounts are debtor to each other and creditor by each other would be removed—until he fully appreciated the principles of accounts—if he substituted persons for accounts, that is to say, the clerks in the office to whom were assigned the keeping of the several records. For example,

"cash debtor to bills receivable*" expresses the fact that the cash account is answerable for the sum which was paid in upon a bill of exchange due to the firm, while the correlative entry in the account of bills receivable would be expressed as "bills receivable creditor by cash." It was suggested that these abbreviated and technical records should be thus expanded: A (who keeps the cash account) has received and is responsible for the sum which has been paid in by B when he discharged the bill of exchange which he had given to the firm in exchange for goods. The second expression similarly interpreted would be thus construed: C (who keeps the record of bills receivable) is freed from responsibility for B's bill which he (C) once held by having handed over to A (the keeper of the cash account) the money with which B has taken it up.

A set of accounts is a systematic and chronological record for the purpose of exhibiting and giving effect to the various transactions which have occurred in trading, set out in the mode explained. All accounts as consecutive registers of commercial dealings are expressed in money, and their object may be briefly described: At a given date the financial position of a merchant or company is ascertained from the preceding year's accounts and presented in a summary statement termed the balance sheet; the transactions entered into during the succeeding year are then registered in the accounts as they occur, and from these accounts the financial position on the termination of that year is again ascertained, disclosing an addition or reduction or equilibrium of funds compared with the state whieh existed at the prior investigation. Now between these two statements of financial position the intermediate accounts act as the explanatory mode of showing how and where the new condition has arisen out of the former one; hence the balance sheet at one epoch is connected with the balance sheet at the sequent epoch by the intervening accounts which disclose and explain any differences which may exist.

The nature and extent of the books of account employed will depend upon the character and scope of the classes of transactions

* A Bill Receivable is a document admitting indebtedness in a certain sum and promising its payment at a specified date; and obviously depends for its pecuniary validity upon the credit (the financial and moral stability and trustworthiness) of the giver of it to the firm or Company, A Bill Payable is similarly a document of the like nature issued by the firm or Company to some other person.

involved in the trade, and it is obvious that a distinct account must be opened for every description of property or dealing in respect of which the merchant or company desires to ascertain the separate gains or losses. The cash book, for example, contains on the Dr. or left-hand side all amounts received, and on the right-hand or Cr. side, all disbursements made. The journal (where employed) forms a preliminary book to the ledger, and is intended to facilitate by suitable arrangement of form (where the entries are not transferred direct to ledger accounts from the other books), the posting* of the ledger from the subsidiary books. Hence it is designed to indicate to what accounts and to which side of each account the transactions contained in the subsidiary books should be carried. The fundamental book is the ledger, and in consequence of its final importance some of the other books are termed "subsidiary" seeing that their function is the registration of the facts necessary for a complete and accurate series of entries in the ledger. Each species of transaction of which it is desired to possess an independent record of gain or loss has thus an account in the ledger. The left-hand side of each account there is entitled Dr., the right-hand side, Cr. If A transfers goods or money to B, B is the receiver, and as regards that particular transaction he is Dr. to A, so that in the ledger B's account with A will be debited, and A's account with B will be credited. It is repeating the same illustration to add that where A is the recipient from B, B's account is credited and A's is debited. The ledger thus contains on a uniform system the whole of the Dr. and Cr. entries, contained in the books, in connection with each separate account; the Dr. and Cr. records being expressed respectively in the appropriate accounts which the ledger comprises. Hence in this volume the whole of the scattered dealings of the year are found registered under their congruous headings; the goods account, for example, containing on the Dr. side the entries of the whole of the goods purchased during the year, that is, their cost, and on the Cr. side a record of the goods which have been sold, that is, the prices realized; while correspondently the cash account exhibits on the Dr. side the whole of the monies obtained from the sale of goods, and on the Cr. side the sum of the payments,—limiting our attention, for

* To "post" means to make an entry in the Ledger.

illustration, to this particular item,—invested in the purchase of goods.

If the whole of the Dr. sides of all the accounts in the ledger be added together their total should obviously prove exactly equal to the total of all the credit entries of the several accounts; this comparison is termed a trial balance, and the process is sometimes styled "proving" the ledger; if this equivalence be found to exist the closing or balancing entries can be made in each account (where the totals of the Dr. and Cr. entries of any *particular* account do not precisely concur), and the statement or balance sheet consequently completed for the year. If in any account the total of the Dr. side be, say, £2,000, and that of the Cr. side £1,500, the balance to produce equality of both sides or £500 is entered on the Cr. side and expresses the fact that the whole of the obligations for which the account is responsible have not yet been actually discharged. Similarly if the Cr. side exceed the Dr. side the closing entry or balance will be shown on the Dr. side with the implication that the entire liability on the account has been satisfied and that a surplus remains. The profit and loss account should be mentioned, which in a merchant's office shows the gains and how they have originated, and on the other hand the expenses and losses and whence they have arisen. In a company that account contains the interest on the invested capital and the amount of interest not carried to the separate accounts of the departments, the profit transferred from each department of the business, with the dividends paid and all expenses which are not allotted to the departmental funds. In fire, marine, and similar businesses where the contracts extend practically for one year, the profit or loss on the year's transactions, for transfer to the one side or the other of the profit and loss account, is arrived at after estimating and providing the necessary reserve for all insurance liabilities. We shall refer to the course pursued by a life assurance company at the close of our observations upon the construction of the balance sheet.

The balance sheet or summary statement of the complete financial position at any epoch is so named from its containing only the balances of the several ledger accounts. It thus expresses on the one side the amount of liabilities existing, and on the other the amount of assets by which they are provided. The question of the proper form of the balance sheet has been debated; the titles,

namely, under which the various balances should appear and thus the accurate use of the designations therein of Dr. and Cr. We propose first to exhibit the form of balance sheet which has become stereotyped on the precedent of the schedules appended respectively to the Joint Stock Companies' Acts and the Life Assurance Companies' Act. In the former the Dr. or left-hand side contains the liabilities,—consisting of the paid-up capital, debts and obligations of the company, the reserve fund, and the balance of profit and loss. The Cr., or right-hand side, expresses the assets,—comprising property owned by the company, debts due to the company, and cash and investments.

In the form appended to the Life Assurance Companies' Act the titles Dr. and Cr. do not appear; the heading of liabilities, also on the left-hand side, contains the capital, the reserve fund, the funds of the several departments, the profit and loss balance, claims under life policies admitted but not yet paid; fire, marine, and other descriptions of losses outstanding; other sums owing by the company; and on the assets, or right-hand side, are furnished the mortgages, investments, agency balances, outstanding premiums and interest; cash on deposit or in hand, and any other assets.

According to this plan then the liabilities are shown on the Dr. side of the balance sheet and the assets on the Cr. side. The justification of this course is thus furnished by its supporters; if the sum of the entries on the Dr. side of an account in the ledger exceed the sum of those on the Cr. side the difference is a debit balance, and reversely for the opposed state of affairs. The account being closed by the insertion of the balance at the foot of the lesser side, new accounts are then opened and in such new accounts the balance is entered upon the side opposite to the side on which they were introduced for the purpose of closing the old account. Thus, take an assumed account of "bills payable" as follows:—

Dr.		Cr.	
To balance carried down	£A	By B. Smith	£A
		,, balance brought down	£A

This credit balance of the account is transferred to the Dr. (or liability) side of the balance sheet.

More modern writers adopt a different view. They affirm that Cr. (or right-hand side) balances of ledger accounts should be placed on the Cr. side of the balance sheet as consisting of *liabilities*, while balances on the Dr. (or left-hand) side of the ledger accounts should appear on the Dr. side of balance sheets as constituting *assets*,—a debtor it being contended forming an asset and a creditor a liability. Thus, assume a ledger account of claims; the total claims being £A and the amount thereof discharged in the year being £B, where B is less than A; the ledger account would then stand:

Dr.		Cr.	
To payments ..	.. £B	By claims ..	.. £A
„ Balance ..	£(A—B)	„ balance owing	£(A—B)

Hence the balance of A—B would be shown on the Cr. side of the balance sheet as a liability. Accordingly pursuant to the first conception, the balance sheet would be prepared:

Dr.	Cr.
(liabilities)	(assets)

while agreeably with the second view its form would be:—

Dr.	Cr.
(assets)	(liabilities)

On this divergence of opinion we have had an opportunity of examining a standard old treatise upon book-keeping, and find that the second view is there adopted, namely:—

Dr.	Cr.
(assets)	(liabilities)

It appears to us that, strictly considered, this second conception of the employment of Dr. and Cr. in the balance sheet is correct.

Possibly the difference in judgment depends upon a divergency in the point of view. In the first case, the company is regarded as Dr. or liable for the several funds, and expresses on the credit side, by the exhibition of the assets, the mode in which it has provided for those obligations. In the second opinion the company may be considered as Dr. or responsible for the amounts of money which it has received and which are shown in their distribution into

mortgages and investments, while on the credit side it expresses the mode in which it has discharged that trust by the presentation of the several forms of liability to which those trust monies have been applied in satisfaction and provision.

The valuation balance sheet of a life assurance account contains on the one side, if expressed in full, the estimated value of the contingent liabilities under assurance and annuity contracts, and on the other side (1) the capitalized value of the future pure premiums to be received from the policyholders, that is to say, the premiums which provide exclusively for the risk of death, and (2) the life assurance fund adjusted for any losses or depreciations of value upon the securities and investments. In the ordinary (and adequate) form, however, the entry on the side of liabilities consists of the calculated value of the assurance and annuity obligations after deduction of the value of the pure premiums, with the life fund only appearing on the opposite side. If the life fund exceed this net value of the liabilities, a surplus is exhibited; if the liability be superior in present value to the amount of the fund a deficiency would appear. The necessary provision for future expenses of management, commission and profits is effected by the loading or addition to the pure premiums which on the method above described is left unvalued and thus available annually for these express purposes. A fuller presentation of the present position and future provision would be afforded if the following plan were adopted: on the one side would be shown (1) the value of the *full* or contract premiums (that is, those actually payable by the policyholders), and (2) the life fund; on the other side, (1) the value of the assurance obligations and (2) the capitalized value of the loading contained in the full premiums thus valued per contra. The net result would obviously be identical with that of the customary method, but a clearer and more comprehensible exhibition would be afforded of the entire financial position and prospects.

The practice of insurance companies generally prior to the Life Assurance Companies' Act of 1870 was the presentation of *cash* accounts only, which included the actual receipts and expenditure whether they pertained to the business of the particular year to which the account applied or also to the prior and subsequent years. Thus premiums due but not received at the close of 1902 would be included when discharged in the receipts of 1903,

and similarly premiums outstanding at the end of 1903 would appear in the account for 1904. And again a premium due in the early part of 1904 and prepaid in 1903 would be comprised in the income of 1903. Hence each year's account was of a confused and heterogeneous character and furnished no genuine index to the transactions solely appertaining to that year. Money invested on mortgage or in securities would be entered as a disbursement, and the repayment of loans or the proceeds of the sales of investments would be comprised in income. It is manifest these latter amounts, —investments and repayments,—should not be contained in an account of income and expenditure, but be expressed in a separate investment account. The object of an annual account is the exhibition of the transactions exclusively pertaining to the particular year for which the account is prepared and which it is designed to record, and should only comprise those items that belong to that year's course of events, while the inclusion of amounts due in the preceding year and the omission of sums due (but not received) at the close of such current year produce complete obscurity and entirely fail to display the real transactions, and their results, which apply to the period whose history we are exclusively tracing. We are thus led to the adoption of a *revenue* account (as prescribed by the Act we have cited), where no items appear which do not pertain to that individual year's survey and record; where consequently premiums due on the 31st of December of the year in question and payments due at the same date are comprised, with the exclusion of items belonging to other years: a premium, for example, paid in the year but due in the succeeding year being directly carried to a suspense account to be entered in the balance sheet, without entry in the former year's revenue statement.

An admirable device in book-keeping is that known as the Columnar system—a term unhappily applied but sufficiently indicative. The receipts and payments instead of being entered in a mixed manner are separated from the outset: one column is headed in the income book "new premiums," another, "renewal premiums," a third, "interest," and so on as far as the analysis is desired to be carried, while in the book of expenditure the several columns would be entitled "claims," "surrenders," and the other principal modes of cancelment. Hence the primary column termed "nature of item" would contain a consecutive record of

transactions of each description while the amount of each would be inserted in its appropriate column. A combined register and analysis is thus provided, so that, without the intervention of any journal entries, the respective totals of the columns can be posted direct to the different accounts in the ledger. A similar plan should be adopted for the debit and credit journals applicable to the branch and agency business.

A few notes may be submitted upon two or three points.

A premium due on the 31st of December but outstanding at that date (in consequence of the days of grace continuing current, or of an extension of time) appears as income for the year, but obviously the commission and any other emolument to the agent should also be expressed in the expenditure of that year. The unpaid amounts of each description—premium and commission,—will be shown in the balance sheet as sums respectively due and owing. In half-credit policies the full premium should be entered as income, and the credit portion will be exhibited in the balance sheet as an advance upon the policy. But the commission entered should not be that which is actually paid but that also which applies to the credit portion of the premium—this unpaid balance being carried to a commission suspense account whence its amount will be discharged when the credit balances of the premiums are received. If the policy should lapse these balances of commission will be written off. At intervals this suspense account will be examined, and those portions written off which circumstances and judgment may suggest to be unclaimable.

In respect of assurances where the premiums are reduced by discounting a part of the anticipated bonus, a distinction appears to be required. Where the unpaid portion is charged with interest and redeemed by ensuing bonuses, the practice is clear and the full premium and full commission (assessed upon the unpaid part of the premium also) should both be entered in the revenue account. Where the premium is diminished in the more usual manner by appropriating for that purpose a proportion of the expected reversionary bonus, without the exaction of interest and subject to increase or reduction according to the rate of bonus successively declared, the original premium should be debited as income while the annual abatement should appear on the credit side of the account as a reduction by bonus.

In mutual societies a well-known actuary maintained that the premium as reduced by the annual bonus abatements should alone be debited. This view is clearly erroneous, since the recurrent diminutions are of the nature of cash bonuses and the inclusion of the net premium alone would improperly augment the ratio of expenditure.

The question of inserting accrued interest (the proportion of interest, that is, for the period intervening between the last periodical date of payment and the termination of the financial year) may be discussed with divergent judgment. Sound reasons may be urged in its favour, and yet on the other hand it may be suggested that, if the principle be correct, it seems properly to involve application also to annuities (which are apportionable) and to certain items of expenses of management.

The general books of an office need not be described beyond a reference to the register of policies. This book forms the fundamental record of the insurance obligations, and the entries are inserted direct from the policies themselves. It is important that all essential particulars relating to each insurance should here appear in combination so that the complete history of the contract may thus be presented in one place and be evident at a glance without extraneous reference. Hence a suggestion may be offered upon the important subject of notices of assignment. The plan is sometimes adopted of registering these notices in a separate volume. Simplicity and greater security of work require that this record should be contained in the register itself. In a column entitled "notices of assignment" the several notices should be briefly entered as they occur under their respective dates of receipt, and thus both exhaustiveness of local record is preserved and an effective means provided of avoiding error in the settlement of titles. It is a useful plan also to appropriate a small column (in the life register) to the quotation of loans and surrender-values under their different dates since a reference to prior quotations affords a mode of maintaining consistency in the values offered.

The method of classification of policies for periodical valuation in a life office may be incidentally mentioned. It was formerly the practice—and may still exist—to keep a Dr. and Cr. account, as it were, of the particulars of all assurances under their several years of valuation ages; any changes in the original contract, such

as an alteration of premium due to amended age (the policy in this case being transferred to its appropriate age), lapses, surrenders, reductions of amount, and claims being recorded on the Cr. side, so that at the valuation, the several totals on the side expressing the alterations and abstractions being deducted from the corresponding totals of the original entries, the final particulars of the contracts in existence would be furnished. This plan not infrequently leads to confusion and difficulty in detecting any discrepancy that may be revealed. Hence the suitable process and the one least likely to occasion mistakes appears to be the abrogation of such a book, and the fresh entry at each valuation of the details (ranged under valuation ages) from the registers upon separate sheets which can be strung together. The plan of cards is sometimes pursued, but double labour and time are involved in this process compared with the simpler adoption of sheets, and the trouble of cards is only worth incurring when it is intended to investigate the experienced rate of mortality under the several classes of assurance and from different points of view.

In effective contrast to the completeness and testing character of the system of double entry the plan of single entry may be briefly introduced, although its importance is mainly historical, adopted as it only is by retail traders. Each transaction, as the name implies, recorded in the subsidiary books, is entered *once* only in some account in the ledger instead of twice. Let a person prepare a statement of his assets and liabilities at a given date and compare it with the corresponding statement drawn out at the preceding period of investigation. He then can infer that since his property has been augmented or reduced during the intervening term as shown by comparison of these two balance sheets, the change must have been occasioned by a gain or loss having resulted from the intermediate transactions expressed in the accounts for the interval, but should an error have been committed in framing one or other of these inventories of his possessions the inference just mentioned would be erroneous also. On the scheme of double entry, however, the steps by which the increase or diminution of property has been produced would be exhibited, and the differences between the two financial positions accounted for with clearness and precision and traced readily to their sources. In the process of single entry the explanation of any divergence would be difficult,

if not impracticable; in the method of double entry the origin of the gains and losses is displayed in respect of each portion of the business by reason of the appropriation of a two-fold record in connection with each transaction. Moreover double entry as contrasted with single entry affords a conclusive check upon the commission of fraud.

Historical Note.

The Tuscans generally, and the Florentines in particular, were noted for commercial skill and enterprise, and Italy in the thirteenth century forming the chief centre of the world's commerce, the system of double entry,—all vigorous undertakings stimulating the invention of completer methods of work—was devised by them and gained, from the country of its origin, the designation of the Italian system. If cloth be sold to A, it was found to be more adapted to effective and ready reckoning, to debit A's account with the price paid and credit the stock book containing the transactions in cloth with the value of the amount sold.

The first treatise upon the scheme of double entry is said to have been written in the Italian language in 1495 by an Italian mathematical lecturer (who was also a Minorite friar) named Di Burgo.

The earliest English work on Book-keeping by double entry ever yet produced was prepared by John Mellis, a schoolmaster, in 1588, under the title of "A Briefe Instruction and Maner hovv to Keepe Bookes of Accompts after the order of Debitor and Creditor." Mellis, however, states in this book that he is simply the reviver of an "auncient old copie" printed in London in 1543, and collected and set forth by Hugh Oldcastle, a schoolmaster, who taught arithmetic in "Marke Lane."

In a volume, dated 1543 (possibly Oldcastle's), which does not appear to be extant, the order of book-keeping is said to be called "in Latyn, Dare and Habere, and in Englyshe, Debitor and Creditor."

THE METHOD OF BOOK-KEEPING

as applied to an Insurance Company carrying on business in Life, Fire, Marine and Accident Departments.

CHAPTER IV.

THE GENERAL DEPARTMENT.

BY R. MASTERS.

IN the following treatise it is assumed that a Proprietary Company, Limited, is formed for transacting business in the United Kingdom in the departments above mentioned. It is not proposed to make this a treatise on the principles of book-keeping in general, but it is addressed to those who have had experience in such matters and is relative only to the details of insurance.

The first record which an accountant would have to make is the amount of capital received from subscribers on application for shares, which as a rule is followed by a further amount payable on allotment.

It is usual for the solicitors employed in drafting the memorandum and articles of association to prepare the forms of allotment and the allotment register in accordance with the various Acts of Parliament from 1862 to the present time.

It is a general practice for subscriptions to capital to be paid direct to the company's bankers, and a special banking account may be opened for this purpose. The totals thus received will be in accordance with the allotment register, so that in the proposed company's own cash book it will be sufficient to show on the received side that so much money has been paid by shareholders on

application and so much on allotment. This should be the opening entries of the cash book.

Before leaving the subject of the issue of the share capital, it will be borne in mind that a share register is necessarily kept by every limited company the forms of which are in accordance with the above mentioned Companies' Acts and are usually approved by the solicitors. These books are closely allied to the book-keeping system which will commence as soon as the company starts active operations.

The system which is undoubtedly the best for insurance business, —and which, to be successful, must be very expansive,—is that known as the Columnar, and this is here applied in every instance where practicable. The great aim of an accountant should be simplicity with efficiency, always keeping in view the desirability of using as few books as possible, and no effort should be spared to avoid repetitions by duplicating entries in the books of account where details may be discovered in books of record. There is a distinction between these books, which may roughly be described, as the books of account, and which are of a totally different nature from the records made of risks accepted, claims paid, register of agents appointed, endorsements on policies, and many allied matters which arise in connection with the acceptance or underwriting of all classes of insurance business; yet, it will be seen that, necessarily, the particulars required for keeping the accounts are to a great measure derived from the "Underwriting books" or books of record.

It will be perhaps consistent to describe here the books necessary for the "General books of the company," which, it is assumed, will be written up in what will be subsequently referred to as "the General department." This department will deal with the investment of the capital, the payment of dividends, the management of the surplus funds of the other departments, except "Life," the payment of such expenses as do not fall to any one of the trading departments, and the preparation of the company's balance sheets. These books as well as those which will be subsequently dealt with in the trading departments are purposely described as "*necessary*." After a company has been in operation for some time they may have to be augmented in accordance with the development of the business.

These books are :—

1. GENERAL CASH BOOK.
2. PETTY CASH BOOK.
3. BILLS RECEIVABLE AND BILLS PAYABLE.
4. GENERAL INVESTMENT AND INTEREST JOURNAL OR DIARY.
5. INVESTMENT LEDGER.
6. GENERAL JOURNAL.
7. GENERAL LEDGER.

Receipts. (1) GENERAL CASH BOOK.

Date.		Particulars.	Folio.	Income Tax.			Interest.			Invest-ments repaid.			Miscel-laneous.			Totals.			Bank.		

Payments. GENERAL CASH BOOK.

Date.		Particulars.	Cheque Number.	Voucher Number.	Folio.	Invest-ments.			Manage-ment Ex-penses.			Miscel-laneous			Totals			Bank.		

To a certain extent the above rulings explain themselves, but some elucidation may be found advantageous.

RECEIPTS.—The first money column is headed "Income Tax," and, although not representing moneys actually received, it will be found on consideration that this column will form a great convenience, being situated in proximity to the second column, "interest," so that when dividends or interest are received on an

investment the amount deducted by the distributor for Income Tax can be recorded, the net cash being entered in the interest column.

The third column, "investments repaid," speaks for itself.

In the miscellaneous column the first entry should be the shareholders' capital under the divisions mentioned above of application and allotment. Subsequent entries will consist of transfers of surplus funds from the trading departments and any other items such as bills receivable matured, and exceptional receipts. The daily totals of each of the columns, excepting Income Tax, are to be carried to the totals column and these, when added together, should be entered in the bank column and daily lodged with the company's bankers. This course will facilitate the examination and agreement of the bankers' pass book with the Cash book.

PAYMENTS.—It will be noticed that a small column is provided for the cheque number, and it is generally found convenient to arrange with the bankers that the cheque numbers should be given in the Pass Book in preference to the name of the payee, thus rendering it more easy to make comparisons between the Pass Book and Cash Book and to keep always in view the cheques not yet presented.

A column is also provided for voucher numbers. For each payment a voucher will have to be exhibited to the auditors at their periodical examinations, and this reference number will be found of great convenience in many ways.

INVESTMENTS.—All payments of this description, whether for the purchase of debentures, or stocks, or loans on freehold or leasehold property, or personal security, are to be entered in this column as the cheques are drawn

MANAGEMENT EXPENSES.—Payment of rent, taxes, salaries, etc., will appear here.

MISCELLANEOUS.—As in the received side of the Cash Book, so this column is provided for all other outgoings not relative to either of the two previous columns. It is recommended that advances for petty cash purposes should be entered here, as it is a good plan to open a Petty Cash account in the Ledger.

TOTALS.—This column may be used in a similar manner to that described in connection with receipts, and as it is usual for cheques to be drawn only at the periodical meetings of the directors,

the total of each batch can be carried into the bank column instead of repeating the details.

It will be of advantage here to describe, before showing the method of carrying the details of the General Cash Book to the Ledger, those books which may be considered subsidiary thereto, although of an independent character, and, after giving details as to the primary use of these other books, the method of bringing the whole into line, and the postings to the Ledger Accounts will be demonstrated.

2. Petty Cash Book.

Here are recorded the details of the expenditure of which the items rarely exceed two pounds each, and it is necessary to have a certain sum of money in hand for such purposes, although it is unwise to keep more loose cash in an office than is actually required. It is better to draw small cheques frequently upon the General Account for Petty Cash purposes, than to retain at times a large amount which might be a source of temptation to the necessitous.

The following ruling will be found serviceable and is so simple that it does not seem necessary to enter into explanation, beyond drawing attention, as in the case of the "General" Cash Book, to the column provided for the voucher number, and suggesting that, at the end of each month, an analysis of the miscellaneous column should be entered as a footnote before the next month is opened.

2. PETTY CASH.

Received.	*Paid*							
Amount.	Date.	Particulars.	Voucher Number.	Postage, Telegrams, Parcels, etc.	Management Expenses.	Miscellaneous.	Total.

It is generally found desirable to balance cash books monthly, completing the additions of the various columns, and posting them to the Ledgers, the method of which will be described in a subsequent paragraph.

3. Bills Receivable and Bills Payable.

The forms for these books are provided by any stationer, and there is no necessity to depart from common usage in connection with insurance companies. Some accountants advocate a combined book, but it is probably more useful to have one book for Bills Receivable and another one for Bills Payable. In each of these books a column should be provided for the Ledger folios into which the details of the amounts are posted.

4. "General" Investment and Interest Journal or Diary.

As a company progresses and its investments become numerous, this will be found a book of considerable importance, as it will be readily appreciated that in insurance business one of the greatest factors of strength is the safety of its securities. These, therefore, have to be watched with constant care. A ruling is appended which will meet the requirements of most companies possessing invested funds.

Month. .....

Date when due.	Particulars.	Folio.	Interest Gross.	Income Tax.	Interest Net.	Principal Repay-able.	Total.	Date when paid.

It will be noticed that the word "month" is placed above the head-line. This implies that, as is the case with most matters relative to insurance, the transactions are associated either with the month of the year or the usual quarter days, so that commencing with January the details of interest falling due or the principal sums which may become repayable (whether on investments or mortgages) should be entered in this book. The first column is provided for the Investment Ledger folio, to which reference will be made after giving a description of that Ledger. The second column being interest "gross" is to contain amounts falling due from either mortgages or investments, and as all investments in the

United Kingdom, as well as many in foreign or colonial countries are subjected to a rebate of income tax, the third column is to contain such reduction.

The fourth column, "interest net," is the amount of interest (gross) less tax.

The fifth column, "principal repayable," speaks for itself.

The total column is the interest (net) added to the principal repayable (if any) and is the amount of cash which ought to be received on its proper due date.

The last column, "date when paid," is for memorandum purposes so that it may readily be seen at any moment whether any amount is overdue and steps taken for its prompt recovery.

5. Investment Ledger.

This book is to contain a separate account of each investment when effected, and it is divided in such a way that the left-hand page is a history of the principal sums advanced on mortgage or loan or the amounts invested in securities purchased.

Dr. *Principal.* INVESTMENT LEDGER. *Cr.*

Particulars of Loan or Investment.					Particulars of Repayment.				
Date.			Posting Folio	Amount.	Date.			Posting Folio.	Amount.

Dr. *Interest.* *Cr.*

Particulars of Rates of Interest and Dates when due.					Particulars of Alterations postponements, etc.					
Date.			Posting Folio.	Amount Gross.	Date.			Posting Folio.	Cash Income Tax.	Total Amount.

In the spaces immediately below the headline on the debtor side should be entered briefly the particulars of the loan or investment, so that, even at a hurried glance, one realizes the precise nature of the account. The second space is to contain particulars of repayments and should show clearly the actual dates when such amounts become due.

On the right-hand page the interest receivable upon such investment is to be recorded, so that one can see, on the one hand, the amount of investment, and on the other, whether all interest has been properly paid to date.

Under the head-line of the debtor side should be made a memorandum of the rate of interest payable and the dates upon which it falls due.

On the creditor side a space is provided wherein memoranda may be made of any alterations affecting the loan or investment or any agreed postponement of the date thereof.

On the debtor side will be posted periodically from the investment and interest Journal, the gross amount of interest.

On the creditor side two money columns are provided ; the first to show the actual cash received and the income tax allowed. These being added together are carried into the second column, and when matters are well regulated each amount to the debit will correspond with that shown on the credit.

The purchase of an investment or an advance on a mortgage will be posted to its proper account in this ledger, direct from the creditor side of the Cash Book, and folio columns are provided for the purpose of ready reference. The cash received for principal or interest will be posted from the debtor side of the General Cash Book in a similar way, and thus the value of having the income tax column in the General Cash Book will be appreciated.

6. General Journal.

Although some accountants think it desirable that all other books excepting the Ledger should be concentrated into a book of this description, and that Ledger postings should only be made therefrom, I, personally, consider that there is little advantage to be gained from that method and that a large amount of unnecessary work is thereby entailed.

But it cannot be denied that a Journal is an absolute necessity when the "Proprietary" Insurance Company which we have under consideration is of a complex nature consisting of several departments.

Appended is a ruling for this book :—

Month .....

Dr. Ledger Folio.	Cr. Ledger Folio.	Particulars.	Subsidiary Ledger Folio.	Items.			Dr.			Cr.		

It will be found convenient to make this a *monthly* book, and the month and year should invariably be entered above the head-line prominently.

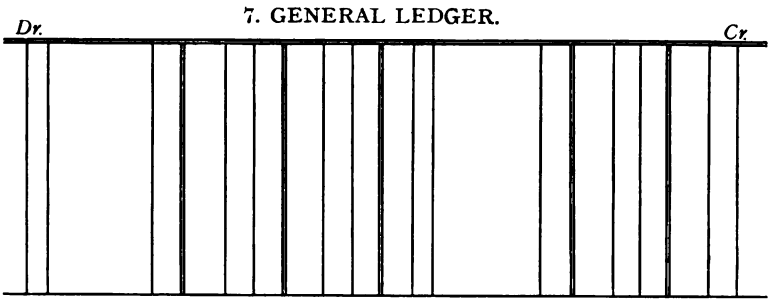
The first two columns are to contain the folios to which the items are posted in the General Ledger, and are marked "Debtor and "Creditor." This is an additional safeguard against mistakes, and will, if it is found necessary to check such postings in order to discover inaccuracies, greatly facilitate that work.

As in the course of ordinary business many entries have to be made which affect subsidiary books a column is provided to show the folio in the latter for purposes of reference.

In the construction of journal entries many items are frequently brought together. It is not necessary always to post them in detail to the General Ledger, but in total sums. A column entitled "Items" is provided, and whether they have to be debited or credited, they can be under-ruled and the totals carried into those columns respectively.

Before describing the further use of the General Journal and the method of bringing the above-mentioned books into a harmonious union, appended is the last ruling proposed to be submitted in this section of the work.

7. GENERAL LEDGER.



It will be seen that this book is an ordinary type of Ledger, with the exception that an inner money column is provided on both the Debtor and Creditor sides. This is purely provisional and not always a necessity, but experience shows that it frequently becomes a matter of convenience to record details, although the outer column in each case is intended to be the record of the totals.

METHOD OF POSTING TO THE "GENERAL" LEDGER BOOKS Nos. 1 TO 6.

1. General Cash Book.

Receipts.—The totals of the respective columns should be completed monthly and a space left in order to contain analyses which will be necessary in the cases of investments repaid and the miscellaneous columns.

Income Tax.—This is the amount which the company has paid in connection with interest actually received, and the total should be carried to the *debit* of an Income Tax Account in the Ledger and at the same time to the *credit* of Interest Receivable Account. Interest totals are to be credited to Interest Receivable Account also. This may appear at first sight somewhat peculiar, but the reason is that when the postings of the "General" Investment and Interest Journal are dealt with, it will be seen that an account called "Interest Receivable" will be debited with the gross income derivable from this source. The double posting is to save an unnecessary journal entry. As a further explanation of this, the "Interest Receivable" Account will be debited with interest (gross)

and the balance between the amount thus debited and cash credited will be the amount of interest outstanding at any given period.

The gross interest from the interest journal is posted to an account to be called "Interest *Revenue*" Account. It is the practice in some companies to omit from their chief books the totals of income tax thus deducted at the source of income, and consequently the amount appearing in their published accounts as income tax paid is far less than the total they actually contribute towards the Imperial Exchequer.

INVESTMENTS REPAID.—These have to be analyzed in order to debit the necessary accounts which have to be kept in the General Ledger in accordance with the Companies' Acts, referring more particularly to the schedules contained in the Life Assurance Companies' Acts, 1870-1, in which form the annual statement of revenue and balance sheets have to be filed at the offices of the Board of Trade, viz.,

Mortgages on Property within the United Kingdom;
Mortgages on Property out of the United Kingdom;
Mortgages on Rates raised under Acts of Parliament;
Loans upon Life Interest and Reversions;
Loans upon Personal Security;
British Government Securities;
Indian and Colonial Government Securities;
Foreign Government Securities;
Railway and other Debentures and Debenture Stocks;
Railway and other Stocks and Shares:
Freehold Premises:
Leasehold Premises.

Any amounts received during the year will have to be posted to the credit of one of the above headings in the General Ledger.

MISCELLANEOUS.—According to the determination of those responsible the items which are entered in this column (not relating to either interest or investments) will be analyzed and posted to such accounts as may be deemed desirable, but experience shows that this column contains principally transfers of surplus cash from other departments, Bills Receivable, and withdrawals from bankers from deposit account or temporary loans according to the condition of the money market.

The column provided on the received side of the Cash Book for posting folios is principally to be used in association with the Investment Ledger as this Ledger is subsidiary to the General Ledger and does not fall into the sphere of the General Balance Sheet excepting as a means of furnishing details in connection with its contents. Thus each month the total of interest received is carried to the credit of an account in the General Ledger which we have called "Interest Receivable," but each day the details of interest received have to be credited to the interest section of the account to which it belongs in the Investment Ledger, and here again will be seen the importance of the Income Tax column.

General Cash Book—Payments.

Investments.—An analysis will be required for this column in a similar manner to that advocated for the receipts, and totals carried to the respective accounts, as given above, in the General Ledger, but the details will have to be debited to the separate accounts to be opened in the Investment Ledger.

Management Expenses.—Any requisite details for the purposes of internal control are obtained as a rule by analysis.

Miscellaneous Column.—This column is similar in character to that on the received side of the Cash Book, with the exception that Bills Payable will be substituted for Bills Receivable and Advance on Petty Cash Account will be entered therein.

The monthly total receipts and expenditure for the sake of completeness should be respectively debited and credited to an account opened in the Ledger in the name of the company's bankers.

2. Petty Cash Book.

The totals of postage and telegrams and management expenses may either be carried together to the Management Expenses Account in the Ledger or may be divided if considered desirable. The miscellaneous column as in other Cash Books, should be properly analyzed and any small payments on account of other departments or in connection with any investment, will be debited to such Ledger Accounts, and in the latter case the separate Investment Account in the Investment Ledger must also receive its

proper debit. The total monthly expenditure of the Petty Cash is credited to that Account in the General Ledger, so that the balance of the Petty Cash Account in the General Ledger is equivalent to the balance existing in the Petty Cash Book.

3. Bills Receivable and Bills Payable.

These may be necessitated by various circumstances but as a rule they are not very numerous. It is therefore suggested that each bill should be debited or credited to the corresponding account in the General Ledger direct from the Bill Book, and that periodically the totals of the Bills Receivable should be debited to that account in the General Ledger, the Bills Payable being credited to a similar account. When the cash received or paid is credited and debited thereto, the balances on the Bills Accounts in the General Ledger will be equivalent to the unmatured Bills.

4. "General" Investment and Interest Journal or Diary.

This has already been referred to and the method of posting this book is to debit the various accounts opened in the investment Ledger with the gross interest to be received, and the monthly total thereof is also to be debited to "Interest Receivable," and credited to Interest Revenue Account in the General Ledger. The Principal Repayable column does not require to be posted, but for the purposes of watching the course of the investment is put into this Journal as a reminder of the cash which ought to be received. It may appear an anomaly to debit in two separate Ledgers the same amount; in the General Ledger in total, and in the Investment Ledger in detail, but it will be remembered, as previously has been stated, that the Investment Ledger is subsidiary to the General Ledger, and when the Balance Sheet of the company is prepared the total of the principal sums under the respective headings previously given should correspond with the list of the principal ot the investments abstracted from the Investment Ledger. In the same way the balance of unpaid interest disclosed in the General Ledger on the "Interest Receivable" Account will be found to agree with the total of the detailed list taken from the interest section of the Investment Ledger. Variations in calculation of either interest or income tax arise from time to time

between the amount anticipated and the amount realized, and these will be adjusted by entries in the General Journal to which book reference will be made a little later. If it be decided to show in the published accounts "Net" Interest received a transfer will be made crediting Income Tax and debiting Interest Revenue at the close of the year.

5. Investment Ledger.

If the above directions have been sufficiently explicit, there is no need to add anything further beyond the suggestion that it is necessary to rule off and carry down balances at the period when the books are finally closed for the preparation of the annual Balance Sheet.

6. General Journal.

This book is to contain all entries which cannot be made in either of the preceding books. There arise from time to time inter-departmental transactions to which effect must be given. For instance, each department has an Account Current with the General Department to which they hand over, as previously mentioned, surplus funds for investment, and it frequently happens that one department, say for instance the "Fire" Department, either receives or pays something which should properly belong to the "Accident" Department. It may not be always convenient to adjust such matters by a cash payment, and a journal entry debiting or crediting the respective "Fire" and "Accident" Accounts in the General Ledger effects the adjustment. There are also entries necessitated by changes in investments, as, for instance, if an investment on realization shows a deficiency or a surplus, this book is a convenient medium of record. The greatest need of all for this book arises when the annual Accounts and Balance Sheets are prepared. Each department renders to the "General" its own Statement of Revenue, Assets and Liabilities, and these have to be incorporated in the Balance Sheet of the Company. The Revenue Account need not be journalized as the balance thereof represents the results of the trading, but the assets and liabilities when debited and credited to the departmental accounts in the General Ledger, taking into consideration the inter-departmental transactions during the year, produce a balance in each instance

equivalent to that shown on the Revenue Accounts. The "General" Department should have no liabilities beyond that of Bills Payable, as all well-conducted companies pay all outgoings as soon as the amount is agreed, but Trading Departments must necessarily have outstandings represented by claims unsettled and unpaid and commission, etc., not yet discharged.

It will be impossible in a treatise of this description to give further detail as to the purposes for which this journal may be used but the above remarks indicate the principal reasons for such a book.

7. General Ledger.

The method of spacing the folios of this book should follow precisely the requirements of the Board of Trade above referred to, and the first opening should be the Shareholders' capital. Then follow the various funds which belong to the Trading Departments, after which is the Profit and Loss Account and then the various accounts for liabilities such as Bills Payable, amounts due to re-insuring companies, outstanding claims or losses and any other liabilities, leaving sufficient space between each account so that the book may not be inconvenienced by repeated transfers from one folio to another. The assets follow the sequence of the liabilities and the necessary accounts can only be determined by the nature of the investments which the Directors authorize. It is not necessary in insurance business to balance the General Ledger excepting when the annual Balance Sheet is prepared.

CHAPTER V.

THE LIFE DEPARTMENT.

BY R. MASTERS

THE first object of the accountant of a life office should be to direct his attention to keeping his books in such a way that the annual accounts when drafted shall correspond with the requirements of the Board of Trade in accordance with the schedules of the Life Assurance Companies' Acts of 1870 and subsequent years. As these Acts may not be readily available to those reading this treatise, I append the rulings of the first and second schedules showing the form of revenue account and balance sheet which is therein provided.

It is permitted by the Board of Trade to render the "Life" revenue account and balance sheet as separate statements from the ordinary balance sheet of the company, and in the latter document it is, in such instances, usual to include on both sides the totals of the life assets and liabilities. This appears to be a preferable method to that adopted by some companies of embodying the details of the life assets and liabilities with the "general" funds of the company. This will be better appreciated when the explanations are given as to the establishment of the life funds under a special trust, which will be found in the paragraph dealing with "Investment Books" (page 99).

The Life Fund being exclusively for the benefit of the Life Policy holders it cannot be used to defray any other liabilities of the Company, and it is therefore the more desirable to issue the accounts in separate schedules. In order to exhibit the Funds of the Company in as large a total as possible in the General Balance Sheet, the inclusion of the totals of the Life Balance Sheet is advocated.

FIRST SCHEDULE.

Revenue Account of the *for the Year ending*

19 Date		£ s. d.	19 Date		£ s. d.
	Amount of funds at the beginning of the year ..			Claims under policies (after deduction of sums re-assured)	
	Premiums			Surrenders	
	Consideration for annuities granted			Annuities	
	Interest and dividends ..			Commission	
	Other receipts (accounts to be specified)			Expenses of management	
				Dividends and bonuses to shareholders (if any) ..	
				Other payments (accounts to be specified)	
				Amount of funds at the end of the year, as per second schedule	
	£			£	

NOTE 1.—Companies having separate account for annuities to return the particulars of their annuity business in a separate statement.

NOTE 2.—Items in this and in the accounts in the third and fifth schedules should be the net amounts after deduction of the amounts paid and received in respect of re-assurances.

SECOND SCHEDULE.

Balance Sheet of the *on the* 19 .

	£ s. d.		£ s. d.
LIABILITIES.		ASSETS.	
Shareholders' capital paid up (if any) ..£		Mortgages on property within the United Kingdomt ..	
Assurance fund ..		Do. do. out of the United Kingdom ..	
Annuity fund (if any)..		Loans on the company's policies	
Other funds, if any, to be specified		Investments—	
		In British Government securities	
Total funds as per first schedule .. .. £		Indian and Colonial government securities ..	
Claims admitted, but not paid*		Foreign government securities	
Other sums owing by the company* (accounts to be specified)		Railway and other debentures and debenture stocks	
		Do. shares (preference & ordinary)	
		House property	
		Other investments (to be specified)	
		Loans upon personal security	
		Agents' balances	
		Outstanding premiums ..	
		Do. interest	
		Cash—	
		On deposit .. ..£	
		In hand and on current account ..	
		Other assets (to be specified)..	
£		£	

* NOTE.—These items are included in the corresponding items in the first schedule.

THIRD SCHEDULE.

Revenue Accounts of the *for the year ending*

(No. 1.) Life Assurance Account.

Date		£ s. d.	Date		£ s. d.
	Amount of life assurance fund at the beginning of the year			Claims under life policies (after deduction of sums re-assured)	
	Premiums, after deduction of re-assurance premiums			Surrenders	
	Consideration for annuities granted			Annuities	
	Interest and dividends ..			Commission	
	Other receipts (accounts to be specified)			Expenses of management	
				Other payments (accounts to be specified)	
				Amount of life assurance fund at the end of the year as per fourth schedule	
	£			£	

Note.—Companies having separate accounts for annuities to return the particulars of their annuity business in a separate statement.

(No. 2.) Fire Account.

	£ s. d.		£ s. d.
Amount of fire insurance fund at the beginning of the year		Losses by fire after deduction of re-assurances ..	
Premiums received, after deduction of re-assurances		Expenses of management	
Other receipts to be specified		Commission	
		Other payments to be specified	
		Amount of fire insurance fund at the end of the year as per fourth schedule	
£		£	

Note.—When marine or any other branch of business is carried on, the income and expenditure thereof to be in like manner stated in a separate account.

(No. 3.) Profit and Loss Account.

	£ s. d.		£ s. d.
Balance of last year's account		Dividends and bonuses to shareholders	
Interest and dividends not carried to other accounts		Expenses not charged to other accounts	
Profit realised (accounts to be specified)		Loss realised (accounts to be specified)	
Other receipts		Other payments	
		Balance as per fourth schedule	
£		£	

* Note.—This account is not required if the items have been incorporated in the other accounts of this schedule.

FOURTH SCHEDULE.

Balance Sheets of the *on the* 19 .

LIABILITIES.	£ s. d.	ASSETS.	£ s. d.
Shareholders' capital		Mortgages on property within the United Kingdom ..	
General reserve fund (if any) ..		Do. do. out of the United Kingdom ..	
Life assurance fund*		Loans on the company's policies	
Annuity fund (if any)*.. ..		Investments—	
Fire fund		In British Government securities	
Marine fund		Indian and Colonial do.	
Profit and Loss (if any).. ..		Foreign do.	
Other funds, if any, to be specified..		Railway and other debentures and debenture stocks	
£		Do. shares (preference and ordinary)	
Claims under life policies admitted but not yet paid* .. ..£		House property	
Outstanding fire losses		Other investments (to be specified)	
Do. marine do.		Loans upon personal security	
Other sums owing by the company (accounts to be specified)		Agents' balances	
		Outstanding premiums ..	
		Do. interest	
		Cash—	
		On deposit.. ..£	
		In hand and on current account ..	
		Other assets (to be specified)..	
£		£	

* If the life assurance fund is, in accordance with section 4 of this Act, a separate trust fund for the sole security of the life policyholders, a separate balance sheet for the life branch may be given in the form contained in schedule 2. In other respects the company is to observe the above form. See also note to second schedule.

The second principal object to be borne in mind by the "Life" accountant is the working requirements of the office itself.

The principal books of account needed for this department are :—

1. CASH INCOME.
2. CASH EXPENDITURE.
3. PETTY CASH.
4. AGENCY DEBIT JOURNAL.
5. AGENCY CREDIT JOURNAL.
6. AGENCY LEDGER.

7. INVESTMENT BOOKS.
8. CHIEF JOURNAL.
9. CHIEF LEDGER.

Auxiliary Books :—

A. NEW PREMIUMS BOOK.
B. RENEWAL PREMIUMS BOOK.
C. COMMISSION BOOK.
D. LAPSED AND CANCELLED POLICIES.
E. BRANCH AND AGENCY BALANCE BOOK.

The proprietary company, which we are endeavouring to establish, will probably follow in the footsteps of similar institutions by establishing Branch Offices in the more important cities for the acquisition and administration of its business within the limits of specified areas throughout the United Kingdom. In connection with this scheme the Agency Debit and Credit Journals, Ledger and Balance Book mentioned above are required.

Taking these books in order, their uses will now be explained.

1. CASH INCOME.

The appended ruling will give at a glance the reason why it is desirable to keep the cash transactions in two volumes of a reasonable and useful size, rather than open an ordinary Debtor and Creditor Cash Book, which, with the development of the business, would grow to an abnormal size and become unwieldy.

CASH INCOME.

Date.		Month.	Policy Number.	Particulars.	Ledger Folio.	New Premiums (Direct.)			Renewal Premiums (Direct.)			Branch and Agency Remittances.		

CASH INCOME (*continued*).

Interest.			Invest-ments repaid.	Policy Loans repaid.	Miscel-laneous.	Total.	Bank.
Net received.	Income Tax.	Policy Loans.					

The columns which are furnished in this ruling are those which will be necessitated when the business is commenced, but in the course of time further columns for special purposes will doubtless be added. Next to the date column will be found one headed "Month," and the next "Policy Number." It is probably a well-known fact that every life policy is associated with the month of the year in which the premium becomes due, and this combined with the number of the policy forms the usual means of making reference to the "office" books, which are not necessarily books of account.

New Premiums Direct.—This is to contain the first premiums on policies issued at the head office which do not come through an account agent, or Local branch.

It is usual for offices to exhibit in their published accounts the amount of new premiums received during the current year, apart from the renewal premiums, because the strength of a life assurance company is gauged (wisely or unwisely) by the outside public largely by the amount of new business it places upon its books each year. The statutory schedules attached to the Life Assurance Companies' Act, 1870, do not provide for this distinction although custom, and possibly instructions from the Board of Trade, appear to make it desirable.

Renewal Premiums Direct.—In this column is entered daily each premium received which is payable at the head office and not through an account agent, or branch.

Agency Remittances.—This column contains monies remitted to the head office by account agents, or premiums paid by the assured at the head office which fall under one of the branch

establishments, and branch remittances which are usually made monthly.

INTEREST ON INVESTMENTS.—This is sub-divided into three columns, being :—

1. Net Interest Received ;
2. Income Tax deducted from the Gross Interest ;
   (*See Investment Books, page* 99.)
3. Interest on Policy Loans.

In order to arrive at the correct amount payable on each Policy loan, a monthly diary has to be kept similar to the Renewal Premium Registers, which are explained later.

{ PRINCIPAL OF INVESTMENTS REPAID.
{ REPAYMENT OF POLICY LOANS.

It does not appear necessary to give any special explanation as to the use of these columns.

MISCELLANEOUS.—This column is provided for any receipts which do not belong to any of the preceding columns.

TOTAL.—As already described in the Cash Book of the "General Department," the daily items entered in the other columns are collected together and the totals thus resulting are paid into the bank and entered in the bank column.

2. CASH EXPENDITURE.

Following the Date Column is here introduced (as in the case of the "General" Cash Book) the number of each cheque ; and for the same reasons there given, it is desirable to arrange with the bank to enter in the pass book the number of each cheque as presented for payment.

CASH EXPENDITURE.

Date.	Cheque Number.	Voucher Number.	Particulars.	Claims.	Bonuses.	Surrenders.	Annuities.	
							Net.	Income Tax.

CASH EXPENDITURE (*continued*).

Re-assurances.		Invest-ments.	Policy Loans.	Expenses of Manage-ment.	Miscel-laneous.	Total.	Bank.
Net.	Commission.						

1. CLAIMS INCLUDING ENDOWMENT ASSURANCES MATURED.—It is frequently the custom of life assurance companies to distinguish between claims by death and endowment assurances matured, although the statutory schedule does not make this distinction.

2. BONUS PAYMENTS.—When the company has an available surplus divisible amongst its policy holders, it may be helpful to divide this column into "Cash Bonuses" and "Interim Bonuses"—the latter representing an accrued bonus since the previous distribution to the assured calculated to the date of death.

3. SURRENDERS.—This is a necessary column, being one of the items appearing in the Statutory Revenue Account, and the transactions arise from various causes. Sometimes, because the circumstances which occasioned the policy being taken out have ceased to exist, or the assured through stress of financial difficulties cannot afford to continue the payment of the premiums. There are, of course, further reasons why policies are surrendered into which it is not necessary to enter more specifically than to indicate the two preceding general causes. It may be accepted that all life companies in their prospectuses have a provision for a guaranteed surrender value for every policy after it has been in force for a specified period.

4. ANNUITIES.—As life assurance companies are entitled to deduct income tax from the periodical annuity payments, it is desirable to divide this heading into two columns; the first being the net cash paid to the annuitant and the second the income tax deducted. The method of dealing with this income tax is converse

to that where the tax is deducted from interest receivable and the amounts deducted from annuities have to be debited to the annuity payments account and credited to income tax.

5. REASSURANCES.—This is sub-divided into two columns for reasons similar to those in connection with the annuities, save that in this instance it is commission which is deducted from the premium payable to the reassuring company, so that the cheque drawn is for the net amount and not the gross. Although the latter is the proper amount to be charged against the premium income, the reassurance account is debited and commission credited with such reductions.

6. INVESTMENTS.—This follows the same method as explained in connection with the General Cash Book, see page 75.

7. POLICY LOANS.—This important item is one which frequently embraces a large number of transactions. The assured in many instances may desire to raise a loan to meet immediate financial requirements, and if the surrender value of the policy shows a sufficient amount a loan is granted on the security of the policy at a remunerative rate of interest to the Company. Such loans are often made to enable the assured to pay premiums falling due, rather than allow policies to lapse. Under any circumstances it is necessary to have every loan, direct or indirect upon a policy, clearly shown as a cash advance. Until a company has a very large business to deal with it will be found advantageous to open a policy loan ledger, showing the advances on each policy and the interest received.

8. EXPENSES OF MANAGEMENT.—Here is entered all expenditure which is incurred in the conduct of this particular department of the Company, and, as in the case of the General department, is to be subjected to analysis in order to classify the expenditure under the requisite headings.

9. MISCELLANEOUS.—This is to contain all further outgoings not provided for in the preceding columns, and herein will appear transactions between the "Life" department and the "General" department which of necessity must arise in the course of the business of such a company as that now under consideration.

THE TOTALS AND BANK COLUMNS are fully explained under those denominations of the General Cash Book, see page 76.

2*a*. Petty Cash Book.

Subjoined is a ruling of this most useful book which follows, in many respects, the ruling advocated for the General Department.

PETTY CASH BOOK.

Cash received.			Date.		Particulars.	Voucher Number

PETTY CASH BOOK (*continued*).

Postage, etc.			Management Expenses.			Commission.			Medical Fees.			Miscellaneous.			Total.		

The columns for the payments are as follows :—

Postage, etc.
Management Expenses.
Commission.
Medical Fees.
Miscellaneous.
Total.

The columns for Postage and Management Expenses need no comment.

Commission.—It is desirable that every item of commission paid direct or deducted from the premium payable at the head office should be entered in detail in this column, and a separate voucher obtained from the recipient. Where premiums are remitted to the head office and commission has been previously deducted, it will be found of advantage to the general system of book-keeping that this deduction should be entered in this book as

a commission paid and the amount added to the net premium when entered in the Cash Income Book to be paid to the bank, so that the gross premium will at once be credited to the "head office direct premium receivable" account in the ledger. Should this course not be adopted it will be found that when details are multiplied a great deal of labour would be entailed in accounting for the gross premiums which have to be debited to this account in the general ledger, before the actual balance thereof can be explained in detail.

MEDICAL FEES.—As it is not convenient in some instances for the proposers of life assurance to attend at the head office for medical examination, a duly qualified Doctor resident locally is requested to examine and report upon the case, and his fee, varying usually according to the amount of the proposal, has to be remitted to him, and therefore this column is provided for that purpose. For such remittances postal orders will be suitable.

MISCELLANEOUS.—Here again a monthly analysis of this column will have to be made, and when the totals of the Petty Cash expenditure are carried to the proper accounts in the chief ledger, the details which do not belong to the preceding columns will be collected under their respective headings.

HEAD OFFICE BRANCH AND AGENCY BOOKS.

3. AGENCY DEBIT JOURNAL.

This book contains all the premiums which are entrusted to the account agents, and local branches for collection and the simple rulings are so manifest that detailed explanations would become tedious. The method of arriving at the particulars to be entered in this book are described hereafter.

AGENCY DEBIT JOURNAL.

Month.....

Particulars.	Ledger Folio.	New Premiums.			Renewal Premiums.			Interest on Policy Loans.			Miscellaneous.			Total.		

4. Agency Credit Journal.

This is almost as simple as the Debit Journal, save that the particulars to be entered herein are derived from the account agents', and local branches' accounts rendered periodically to the head office to which reference will be made later on.

AGENCY CREDIT JOURNAL.

Month .....

Particulars.	Ledger Folio.	New Premiums not taken up.			Renewal Premiums lapsed etc.			Commission.			Miscellaneous.			Total.		

5. Agency Ledger.

This is the simple form of ledger in use in almost all classes of business.

6. Investment Books.

The funds of the life department have to be specially invested for the benefit of its policy-holders, who have a priority thereto before any Rights which the shareholders of the company may possess, or to that of any other department which may be administered under the subscribed capital to meet the liabilities of the Life department. Should by misfortune the life funds prove insufficient, the policy-holders have a right to claim any deficiency from the other funds of the company or upon its uncalled capital (if any). The life funds are invested for exclusive security in the names of a body of specially appointed trustees. A set of books, therefore, must be kept in order to record the necessary details in connection with the Life Fund investments, and these books should be identical in form and method with those described under the "General" department investment books. If the reader, therefore, will refer to page 78, repetition of the observations submitted in those pages will be unnecessary.

7. Chief Journal.

This is a book to be used in a precisely similar manner to the "General" Journal.

8. Chief Ledger.

The remarks made in the explanations given of the General Ledger equally apply here and need not be repeated.

It will be gathered from what has been mentioned in the foregoing explanations of the Life department books that every life department which is in association with other departments of a complex company has to keep its transactions scrupulously apart from those of the other departments and prepare and publish revenue accounts and balance sheets, in such a way that it may be said, it is a company established on its own basis, but with this advantage that beyond its own funds it has an emergency claim upon the other funds and uncalled capital of the parent company. In consideration for this protection it is usual to concede to the shareholders a small percentage on its surplus (if any) as disclosed in the periodical (usually quinquennial) valuation and distribution of bonus. The valuation of the liabilities of a Life insurance company is a matter which is peculiarly the province of trained actuaries, and is in no way a part of the usual duties of an accountant, those duties being confined to the proper exhibition in the balance sheets of the existing assets and liabilities of the department. The distribution of bonus depends upon the available surplus which is ascertained after deducting from the net assets the amount of estimated liability under the current policies arrived at upon a sound basis after applying severe tests as to possible contingencies.

AUXILIARY BOOKS.

A. New Premiums Book.

The usual method followed by life assurance companies after due investigation of the details disclosed in the proposal form signed by a candidate for admission to the society or company, and after meeting with the approval of the directors, is to issue an acceptance memorandum stating the terms upon which they are prepared to write a policy upon payment of the first premium, embodying therewith the amount of the first and future annual

premiums. This is an essential part of the contract, and therefore the amount so payable should be debited to an account in the company's books. The following ruling will show the method of debiting: first, Head Office Direct, second, Agency, third, Branch.

NEW PREMIUMS BOOK.

Month......

Date.	Acceptance Number.	Particulars.	Date when paid.		Policy Number.	Month.	Premiums.									Not completed.		
							H. O. (Direct.)			Agency.			Branch.					

After the date column should be given the number of the Acceptance Memorandum. In the particulars should be entered the name of the agent or branch, and also the name of the assured.

The next column will, in the meantime, be left vacant until the premium is paid, upon which the policy will be prepared, and the number and month allotted to that policy will be inserted, thus showing that the contract is completed, the sum assured and premium falling to their respective columns.

This book, like all the other books relating to the life department, should be added up and ruled off monthly, and the totals carried to accounts opened in the chief ledger under the respective headings of "New Premiums Head Office" and "New Premiums Branch and Agency," an account at the same time being opened to "New Premiums Revenue Account" to which the aggregate amount should be credited. A further column is provided in this book for proposals accepted but not completed. Where negotiations fall through, so far as the head office is concerned, the premiums previously debited should be entered in this column, and they should be credited to the "New Premium Head Office" account and debited to "New Premium Revenue Account" in the chief ledger.

When a proposal is so far advanced that the company issues an acceptance memorandum, it is of comparatively rare occurrence

that the negotiations fall through, but provision must be made for such a contingency, and hence it is suggested that such writing-back of premiums previously debited should be made in the ledger as separate items.

With regard to acceptances of proposals issued to "Account agents" or Branches, it is obvious that the latter must be held responsible until the time-limit has expired or the premium has been paid. These new premiums will be entered monthly in totals in the Agency Debit Journal, and any proposals not completed will be passed through the Agency Credit Journal in due course and thus find their way to the proper Revenue Accounts in the chief ledger. At the same time, it is for the purpose of ready reference desirable to make a marginal note in the New Premium Book of any rejection of a proposal. A further advantage of keeping the new premiums in the method thus described will be observed when the annual report is prepared and issued to the assured or shareholders, and to the public generally. It is customary to state therein that so many proposals have been received during the year for a specified aggregate amount, of which so much had to be declined by the directors, so much was not completed, and so much was entered upon the registers of the company.

In order to avoid repetition of detail, it is mentioned in the preceding paragraph that the monthly totals of this book should be entered in the Agency Debit Journal, but it is easily seen that the details may be posted direct to the debit of the agents or branches and it will be found in practice desirable to have each new premium specified in the proper accounts in the Agency Ledger.

B. Renewal Premiums.

There should be three books in use for renewals, or as they are sometimes called, recurring premiums:

1. Head Office Direct.
2. Agency.
3. Branches.

The ruling for these three books is almost identical. Each book should be divided by tabs into twelve sections, one for each month in the year.

The following ruling will at once explain itself:

RENEWAL PREMIUM BOOK.

Month.....

Policy Number.	Date due.	Name of Assured.	Sum Assured.	Agent.	Annual Premium.	1904.		1905.		1906, etc.
						Date paid.	Premium.	Date paid.	Premium.	

NOTE.—In the Date Paid Column cancelment should also be marked.

The column provided for "Date when Paid or Cancelled" is found convenient for reference when the history of a policy is to be considered in association with the various circumstances which arise from time to time in connection with valuation, surrender value, loan on policy or claim. In the book used for head office premiums the actual date of payment will be entered in conjunction with the Cash Income Book. In the agency and branch sections it will be sufficient to refer to the month in which such payment is included in the accounts rendered to the head office.

With regard to the Branch Renewal Register, each monthly division should be again sub-divided so as to permit the whole of the premiums relating to a branch being collected together. The totals of the premiums expiring each month should be added up and entered to the debit of that branch in the Debit Journal in one sum. Should any reference as to detail be necessary, the Renewal Register will furnish all that is required.

With regard to the agency section, it does not often occur that one agent is able to present many proposals in the course of a year; it is therefore suggested that agency policies should be entered numerically, and that a monthly analysis should be made, the total of which will agree with the total in the Renewal Register, and the agents will be debited individually in the Debit Journal.

It will be observed that there are columns provided in these books for several years, so that the Renewal Registers if spaced properly ought to last a considerable period, and thus save the re-writing of details.

When policies mature or are extinguished by surrender, lapse or death, they will of course be ruled out of these books in accordance with the "Office Alterations Book" to which reference will be made later on, but a difficulty arises in connection with policies which sometimes through the carelessness of the assured are technically allowed to lapse but which according to the prospectus of the company may be revived (usually within a period of thirteen months) upon satisfactory evidence being provided of the continued health of the assured. It is usual to note in pencil in the company's books the circumstances of such cases, and not to rule the policy out of the registers and other books, until the final period has elapsed.

C. Commission Book.

The following ruling will be found of practical value to all life insurance departments:

COMMISSION BOOK.

Policy Number	Date when Premium Payable.		Name of Assured.	Agent.	Amount Assured.	Annual Premium.		

COMMISSION BOOK (*continued*).

Commission. Year					Commission. Year					Etc. Etc. Etc.
Date when paid.		Amount.			Date when paid.		Amount.			

Comparatively few life assurance policies are issued without commission being payable either in a commuted sum or upon annual renewals. It is, therefore, advocated that every policy issued by the company should be entered in sequence in this book showing the number of the policy, the sum assured, the rate of commission, (if commuted, let that be stated,) the name of the assured, and the agent to whom the commission is payable. A section of rulings under a series of years should be given to show the date when commission was paid, or credited in account, and the amount thereof.

This is a book of importance as a means of checking agents' and branch accounts, and also as a means of avoiding commission being paid more than once on any one premium. It is not strictly a book of account, but it is so closely allied with the keeping of the accounts that it is introduced here.

Many companies keep a book which is entitled "Commissions Paid," and should an agent call at the office and ask for payment of commission on premiums received by the company, he is paid in cash such sum as may be due to him and at the same time is requested to sign a book. It is also customary in some companies to enter in this book commissions which are deducted by agents or the assured in remitting premiums, and a reference is given to the letter or memorandum accompanying such remittance in lieu of the actual signature of the agent as previously mentioned. This does not seem the most desirable system, and it is submitted that a better plan is to make every commission item, not coming through the medium of agency or branch accounts, a separate payment through the Petty Cash Book and a separate voucher obtained from each recipient.

Where the commission is charged in branch or agency accounts the entry will be found in due course in the Agency Credit Journal the details having been verified by reference to the commission book.

D. Lapsed and Cancelled Policies.

A very important book in life insurance departments is one which may be designated "Policy Alterations' Book," which is mostly associated with the technical working of the office. This is the source of certain entries which must be made in the books of account

of lapsed or cancelled policies. So far as the branch and agency accounts are concerned, the particulars of lapsed or cancelled policies find their way into the Credit Journal through the periodical branch and agency accounts rendered to the office. With regard to policies of which the premiums are payable direct at the Head office, provision must be made for their entry in order to keep the accounts for direct premiums correct. Not wishing to multiply the books, monthly entries should be especially made in the Chief Journal, where such circumstances necessitate their creation, and these details will have to be extracted by the accountant from the Alterations Book.

After premiums have been debited to the head office account, it occasionally happens under certain circumstances, such as a mistake being made in the age of the assured, or the exigencies of travelling to prohibited areas, that an increase of premium is necessitated, and in such cases an entry will be made in the proper section of the "Alterations Book" and therefrom the accountant will make relevant entries in his Chief Journal. This course will be further exemplified when the balancing of accounts in the chief ledger is discussed.

E. Branch and Agency Balance Book.

Life accounts being usually rendered monthly, it is highly desirable that an abstract should be made from the Branch and Agency Ledger of every account, showing how the balance in each instance arises, and this book exhibits in a skeleton form such particulars, so that the accountant when checking the statements as received will without hesitation be able to verify the accuracy of the figures. The particulars given in the debtor and creditor columns allotted to each month are briefly the premiums which have yet to be accounted for, and when the creditor column is deducted from the debtor the resultant amount is the balance standing to the debit in the Ledger of the branch or agent. Accountants may vary in their methods of dealing with this matter, and this Balance Book can hardly be considered an actual book of account, but feeling that it is one of considerable assistance to the proper control of the business and a great saving of memoranda or detailed research, it is mentioned here as an aid to a well conducted department.

BRANCH AND AGENCY BALANCE BOOK.

	January.						February.					
	Dr.			Cr.				Dr.			Cr.	

BRANCH AND AGENCY BALANCE BOOK (*continued*).

March.						Etc. Etc. Etc.
	Dr.			Cr.		

With reference to bills payable and receivable, these are not of frequent occurrence in a life department, and therefore it seems superfluous to make any provision for them unless it is found that the development of the business necessitates that course being adopted.

Revenue Account and Balance Sheet.

As previously mentioned, the accounts in the chief Ledger should follow in the order of the headings given in the forms required by the Board of Trade. Life business is practically conducted on a cash system and therefore the Income and Expenditure Books are a complete record of its transactions so far as the Head office is concerned, but the premiums which have to be collected by the agents or local branches must be debited in the first instance to their proper accounts through the branch and agency Debit Journal, credit being given for commission or the trifling out-of-pocket expenses connected with their collection. The balance of each monthly account should be paid in cash and entered in the

remittance column of the Cash Income Book. In order to prove the accuracy of the Branch and Agency Ledger an account under that denomination should be opened in the chief Ledger, where the total monthly premiums falling due will be debited from the Debit Journal and credits for commission and other items credited from the Credit Journal, remittances being credited in total monthly from the Cash Income Book.

The resultant balance will be the amount of premiums which have yet to be accounted for and should agree with the aggregate of the balances outstanding on the branch and agency Ledger.

Further accounts should be opened in the chief Ledger for new premiums receivable and renewal premiums receivable at the head office. To the debit of these accounts the monthly totals will be transferred from the new and renewal premiums books previously described,—credit being carried to accounts to be called new premium "revenue" and renewal premium "revenue." Monthly totals of cash actually received at the head office will be credited direct to the before-mentioned "Receivable" accounts, and the balance will show the amount of premiums outstanding at any given period.

The question of lapses, cancelments and alterations has been referred to in connection with the Chief Journal, and from that book the accounts mentioned in the preceding paragraph will be credited in due course, so that when the annual accounts have to be prepared a statement can be obtained from the new premium and renewal premium registers showing the details of those policies upon which the premiums have not yet been paid to the head office, and thus verifying the balances on these accounts respectively. The rest of the company's receipts will be posted direct from the Cash Book monthly (in total) to their proper destinations. For instance, interest receivable will be credited with interest received and income tax. The interest revenue account will be credited with the total monthly interest brought in from the interest diary, described in full under the "general" books of the company.

Alterations in connection with loans necessitating an adjustment of interest will have to be effected through the medium of the General Journal.

As regards—claims paid during the year and the endowments maturing—Surrender values paid—annuities—reassurances—these

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are always paid or provided for with exact promptitude, but where in some instances the payments falling due up to the end of the financial year have to be postponed into the ensuing year it is customary to make a Journal entry debiting these accounts respectively and crediting an "outstanding" account.

With regard to commission, it is necessary to go through the Commission Book and abstract therefrom all commissions to which a subsequent claim may be preferred and introduce the total by debiting commission account and crediting an account to be opened called "outstanding" commission. When the balance sheet is prepared from the Ledger and the books are finally closed for the year it is usual on reopening them for the next period to write back these provisional entries for outstandings as during the course of the ensuing year they will probably be met by actual cash payments.

Chief Journal.

This book, as has been repeatedly suggested, should only be used for those entries which are not provided for in the other books in use. The monthly totals from the other books should be carried to the accounts in the Chief Ledger direct, as it is superfluous to journalize them when the totals are exhibited in such a way as to enable them to be posted from the Income, Expenditure, Debit and Credit Journal, etc. The closing entries in the Chief Journal are those outstandings which may be undischarged at the close of the year as indicated above; following these are transfers from the premiums revenue, interest revenue, claims, reassurances, annuities, bonuses, commission and other accounts to an account in the Ledger to be called "Revenue account." The balance on the revenue account when thus constructed represents the net life funds of the company, and when the balance sheet is made out, the assets on the one side being totalled and therefrom the liabilities deducted, the same balance is furnished as in the revenue account.

In addition to the expenses of management which are defrayed by the life department, there will probably be a proportion of general or imperial expenses to be refunded to the General department, and the account in the chief Ledger containing the transactions between the life department and the general department will have to be credited therewith. It will usually be found that there is either a balance owing by the life department to the general,

or if the funds of the life department are not fully invested it is not unusual for that department to make a temporary deposit by way of loan to the general funds of the company, and according to the condition of the account at the close of the year so it will be necessary to state in the balance sheet either that there is a temporary advance made to the general department or a temporary loan received from that department.

This appears to be an opportunity to draw attention to what some accountants consider an anomaly. In the prescribed forms of insurance balance sheets the assets appear on the credit side and the liabilities appear on the debtor side, whereas in the recognised forms of good book-keeping the assets are always debit balances and the liabilities credit balances.

CHAPTER VI.

THE FIRE DEPARTMENT.

BY R. MASTERS.

HEAD OFFICE.

After the usual preliminaries have been arranged it is the practice for the insured to pay the first premium, upon the receipt of which the policy of insurance is prepared. This becomes the initial entry in the head office Cash Book, which for purposes of distinction may be called the town new Cash Book of which a ruling is here inserted.

Date.		Name of Insured.	Policy Number.	Sum Assured.	Premium.			Additional.			Total.			Returns.			Policy Number.			Net Daily Premium.		

The date, and name of the assured need no comment.

The sum assured is necessary to be mentioned, as all fire insurance companies which are associated with the fire offices' tariff have to contribute towards the expenses of conducting the functions of that institution, and also under the Metropolitan Area and London County Council regulations they have to contribute proportionately to the expenses of the fire brigades. The policy numbers are given in sequence, as it is advisable to allot to each section of the fire business a distinctive set of policy numbers so that they may be readily traced through the company's records whenever reference is necessary. The amount of each premium is entered in the next column, and the daily totals are carried into the total column.

Additional premiums frequently occur in the course of business by endorsements being entered on the policies which may increase the rate, as for instance, a tradesman may add to his stock "works of art" or "explosive materials" which will carry higher rates than ordinary articles such as furniture or clothing.

As business progresses it will be found that new policies have to be issued in lieu of existing policies owing to various alterations in the conditions of the risks and in many instances a return of premium for the unexpired time is granted. This comes under the heading of "return" column. The number of the policy thus replaced should be given to enable the office books to have its cancelment properly marked therein.

The result of the day's operations, after giving effect to additional premiums or returns, are to be carried into the total column, and this amount should be entered in the Fire Chief Cash Book under the heading of "New Premiums." The ruling of this Chief Cash Book will be found a little later on when the various columns will be further explained.

Renewal Premiums.

With the exception of short-period policies, renewals fall to the current quarters of the year, and in anticipation thereof receipt-forms are filled up which are in accordance with the renewal notices sent to the insured. These receipt forms are numbered and double counterfoils are attached thereto. One counterfoil is left in the bound book of receipts, whilst the other is used by the cashier to enter up his renewal Cash Book, which is a simple form of ruling consisting of counterfoil numbers, sum assured and premium. The sum assured is entered here for the same reasons as those mentioned in association with the New Premium Cash Book. At the close of the day the total is carried direct to the chief Cash Book. The number of the counterfoil furnishes a means of ready reference to other records of the policy.

All alterations in fire policies should be effected by means of endorsements, and the endorsement books, which contain statements of the endorsements made on the backs of the original policies, should have two columns, one for additional premiums and one for return premiums. The totals of these columns should be agreed periodically with the Cash Books.

Branch and Agency Books.

In well regulated fire offices all policies emanate from the head office, and where they are not payable direct are entrusted to "account agents" or to the branch offices for collection. From the New and Renewal Policy Registers entries are made in the Debit Journal to the proper accounts, and the following ruling will practically explain itself :—

DEBIT JOURNAL.

Date.	Agent, etc.	Ledger Folio.	Sum Assured.	Premium.	Additional by Endorsement.	Miscellaneous.	Total.

Methods will have to be adopted in dealing with alterations by endorsements on policies similar to those employed in connection with premiums payable direct to the head office described above.

CREDIT JOURNAL.

Date.	Name of Agent.	Ledger Folio.	Cancelments.	Returns by Endorsement.	Commission.	Expenses.	Total.

It will be observed from the above that provision is made for lapsed policies (frequently known as cancelments), commission and expenses. When these items are credited to the branch or agency in accordance with the periodical accounts rendered to the head office, each quarter should be closed by a remittance received in cash.

Remittance Book.

In order to avoid the entries in the Chief Cash Book becoming too numerous, it will be found useful to open a Remittance Book for record of the daily receipts from branches and agents for premiums paid by other officers who seek protection on surplus risks by means of re-assurance, and also for amounts recoverable from such offices as have reciprocated in the acceptance of risks which may be in excess of office limits. This latter item is usually called "loss proportions."

Date.	Name of Branch or Agent.	Folio.	Branch and Agents.	Guarantee Premium.	Loss Proportions.	Miscellaneous.	Total.

Chief Cash Book.

With the preceding remarks the rulings of this Cash Book will to a large extent explain themselves :—

RECEIPTS.

Dr.

Date.	Particulars.	H.O. New Premiums.	H. O. Renewal Premiums.	Branch and Agency Remittances.	Guarantee Premiums.	Loss Proportion.	Miscellaneous.	Total.	Bank.

The miscellaneous column is provided, as in other Cash Books, for all items which do not belong to any of the other columns and will include bills receivable, temporary advances from the "General" department, and exceptional receipts of every description.

PAYMENTS.

Cr.

Date.	Particulars.	Cheque Number.	Voucher Number.	Ledger Folio.	Fire Loss Payments.	Re-insurances.	Management Expenses.	Miscellaneous.	Commission.	Total.	Bank.

This provides in the first instance for fire loss payments, and it will be found a very useful regulation that no loss payment should be made excepting through this column so that there shall be only one source of entry to the Chief Ledger of loss payments, with the exception of outstandings at the termination of each current year. Whilst mentioning the subject of loss payments, it is a desirable moment to explain that a Loss Payment Book should be kept in which are shown the details of each policy as regards its number, the name of the insured, the agent (if any), the class of risk, the total amount assured, the amount of claim as settled, and the amount recoverable under reinsurance (if any) and also any further recoveries by realization of salvage. This is not, strictly speaking, a book of account, but is one of those books which is essential in every fire insurance office by which verification of the actual cash transactions is made, and when this book, which may conveniently be called the Loss Payments Book is balanced, an agreement should be exhibited between its totals and the loss account in the Chief Ledger.

The next column of "reinsurances" is a record of amounts actually paid to other companies for their participation in the surplus limits of the company underwriting the risks.

Management expenses explains itself and need not here be entered upon in detail.

Miscellaneous. This column is intended for such items as bills payable, special commissions, returns of premium and remittances to agents who may be entitled thereto on account of their having overpaid their accounts, petty cash cheques, and transfers of surplus funds to the "General" department.

COMMISSION.—This is a very important matter in association with all insurance transactions. As regards premiums payable direct to the Head Office, the commission is either deducted by the agent on sending in his premiums or else he may call after the premiums have been paid and request the payment of the commission in cash. A Commission Book should therefore be opened, of which a ruling is here appended.

Date.		Name of Agent.	Receipt Number.	Reference Folio.	Premium.			Commission.			Total.		

A certain sum to be agreed upon according to the nature of the business must be provided in order to defray these payments as demanded, and at the end of each day when the premiums are paid over to the cashier to be lodged in the bank, the total amount of commission which may be deducted from the premium before it is paid must be refunded from the commission cash so that the actual gross premium finds its way into the company's books. The commission Cash Box should be refunded as frequently as necessary from the Petty Cash account in order that the maximum cash agreed upon shall always be maintained.

PETTY CASH.

Date.		Particulars.	Fire Claims.			Commission.			Expenses of Management.			Miscellaneous.			Total.		

It is unfortunately customary for a large number of the insured to make claims upon a company of a very trivial character, and therefore the simplest method is to pay the claimant at once the few shillings he demands, for which purpose the Petty Cash Box is available. The claims are entered in the first column of this book, and when necessary a cheque should be drawn upon the chief banking account to refund these loss payments in order to keep the total claims as previously mentioned in one column of the Cash Book.

The commission column represents the refunding of the amounts paid through the Commission Book in connection with the head office business of the company.

Expenses of management and miscellaneous columns need no comment.

Cheques will have to be drawn periodical y on the chief banking account to re-supply the Petty Cash account. These will be debited to the petty cash account in the Chief Ledger, and all payments with the exception of losses will be credited to that account from time to time, so that the balance on the petty cash account in the Chief Ledger will ultimately be identical with the balance shown in the Petty Cash Book.

It may be of some interest to state that owing to the great facilities offered at the present time by bankers, it is not unusual in order to avoid the necessity of having too much ready money in the office, to open a banking account with a limited maximum balance which may be operated upon by a responsible officer of the company who can thus discharge therefrom items of £2 and upwards. This is no necessarily essential to the carrying on of a company's business, but it will be found in operation a very convenient arrangement.

Renewal of Expiry Registers.

A division of numbers for policies under the following headings is a great advantage in the conduct of a fire insurance company. For instance, the numbers should be allotted systematically, namely :—

Head Office, No. 1 to 1,000,000 ;
Agency Accounts, No. 1 000,0001 to 2,000,000 ·
Branches, 2,000,001 to 3,000,000.

Renewal Registers should be opened for each of these three divisions, for which a similar ruling will be serviceable :—

Agent.	Assured.	Policy Number.	Sum Assured.	Premium. 1904.	1905. etc., etc.

These books are prepared to last for a number of years and when a quarterly period has expired and the policies which are not renewed are entered in the Cancelment Books, of which notice will be introduced hereafter, the cancelments are ruled out, that is to say,—policies expiring or renewable at Christmas, 1903, are found in that column when the quarter is closed, those that have not been renewed will be ruled out, and when Christmas, 1904, arrives, the risks in force will be found in the 1903 column and will be entered up in the 1904 column and totalled so that the head office, or the branches, or the agents direct, will be held responsible for a due accounting of the total premiums with which they are entrusted for collection.

With reference to the branches, it will be found of further convenience to sub-divide the numbers allotted and to provide a space for each local branch office in the renewal Register.

In connection with the Agency Renewal Register, a book somewhat in the form of a Ledger Account will have to be opened.

Agency.....

Particulars.	Ledger Folio.	Sum Assured.	Premium. 1904.	1905. etc., etc.

This will enable the policies under each agency to be collected together and the renewal notices and receipts prepared therefrom. Each account must be added and a grand summation made of the whole of the agency totals, which must agree with the total premium ascertained from the agency Numerical Renewal Register, so that one Register proves the accuracy of the other.

The totals of the head office renewals will be debited to an account in the Chief Ledger, the cash will be credited thereto from the Cash Book in monthly totals, and the cancelments will be credited from the Cancelment Book. The balance on this Ledger account will be represented by a total of unpaid premiums which will have to be verified by the unissued receipts.

The branch and agency renewals will be put through the debit Journals in totals, and when the branch accounts are rendered the credits for cash, remittances, commission and returns, etc., will be credited thereto and the balance on the "branch account" will be agreed with the aggregate balances shown in the Branch Ledger.

Separate Ledgers should be opened for branches and agencies, to which will be posted the details from the Debit and Credit Journals and each account balanced periodically. At the close of the year these total balances must agree with the balance on the branch and agency accounts opened in the Chief Ledger.

Cancelment Book.

Separate books for cancelments should be opened in accordance with the three distinctive accounts referred to under the heading of Renewal or Expiry Registers:—

1. Head Office.
2. Agency Accounts.
3. Branches.

The rulings may be identical, although in the case of the head office accounts, returns under new policies are provided for in the Town New Cash Book; still it may be found under certain circumstances, convenient to have this column for special purposes.

Every cancelment of a policy which is effected in connection with the issue of another policy should be recorded in these books, and also when the quarterly renewals are all cleared up, those policies

which absolutely lapse should be entered in detail. From the columns given on the right-hand page, postings will have to be made to the usual office records, thus ensuring that when reference is made either to a policy copy, or a Renewal Register, it will be seen at a glance whether the policy is still remaining in force, or has lapsed.

CANCELMENT BOOK.

Date.	Agent.	Name of Assured.	Ledger Folio.	Policy Number.	Sum Assured.	Premium.

CANCELMENT BOOK—(*continued*).

Total.	New Policy Cancelled.	Returns allowed.	New Policy Register.	Renewed Policy Register.	Risk Register.	Re-insurances.

With reference to branches and agents, the cancelments and endorsements will have to be posted to their respective accounts in the Subsidiary Ledgers. It is not necessary to re-enter these items in detail in the Debit and Credit Journals, but they can be posted from the above books, and for the purposes of making the records in the Chief Ledger it will be sufficient merely to carry the totals periodically into the Debit and Credit Journals respectively.

Reinsurance and Guarantee Premiums.

The term "guarantee" is usually applied in relation to the protection granted by the "*company we have in view*" to other companies who may seek participation in risks involving greater responsibility than the original underwriting company cares to retain.

On the other hand the term "reinsurance" is applied to the risks accepted by way of reciprocity by other companies. In either event the rulings of the Guarantee and Reinsurance Registers may be identical :—

Date and Quarter.	Company.	Sum Assured.	Ledger Folio.	Premium.	Returns.	Commission.	Total.

It is desirable to enter new guarantee policies issued or reinsurance policies received in detail in these Registers, but for the purposes of renewal premiums a quarterly total to the credit or debit of each company will be found sufficient. A Renewal Register forms, therefore, a necessary adjunct to the office books constructed upon similar lines to the ordinary Renewal Registers for agency accounts :—

NAME OF COMPANY (SUN).

Date.	Name of Assured.	Sum Assured.	Original Premium.	Renewal Premiums.	1903.	1904.	Etc. Etc. Etc.

A separate portion of each quarterly Renewal Register should be allotted to each company, and with regard to the reinsurances obtained, when the quarterly account is completed, cancelled policies can be ruled out and a statement sent to the company of the amount of premium to which it is entitled. This will be entered in the Reinsurance Register and credited to the company in the Guarantee Ledger.

In connection with the guarantees issued, nothing can be done until the other companies seeking protection render their statements, to the totals of which due effect will then be given in the same manner as that above mentioned.

There is no need for any special form of Ledger for these accounts as the ordinary simple ruling will serve every purpose.

Two accounts will be necessary in the Chief Ledger, one for reinsurances obtained, and the other for guarantees issued, and as in the case of the branch and agency accounts, when the books are closed for the purpose of balancing, the balance on these accounts will have to agree with the aggregate of the balances owing to or by the companies in the subsidiary ledgers.

Loss Proportions.

Another subsidiary Ledger is necessary for amounts recoverable from other companies as has been previously mentioned, to which debits will be posted from the Loss Payments Book, cash when received will be credited from the Remittance Book, and at the close of the year the balances unpaid will agree with the amount shown in the Chief Ledger under the heading of Loss proportion Recoverable.

Revenue Account.

The revenue account of a fire office is made up of new and renewal premiums to which is added Guarantee premiums and from which is deducted Reinsurances. These figures are obtained by the ordinary method of double entry, whereby branches, agents and head office, are debited with the amounts for which they are held responsible and premium income is credited. In the course of the year the cancelments, returns and additions by endorsements, are carried in a similar way to these premium accounts and the net result is transferred to the credit of revenue.

The next item which is frequently found in fire insurance accounts, and which in many instances is the only other source of revenue, is interest. Fire underwriters generally seem anxious to have what is called the Fire fund augmented by interest earned upon the investments. This seems to be a very proper course in connection with a company whose sole business is fire insurance, but in a complex company with several departments, it seems almost an unnecessary

proceeding. As the separate funds of the different departments are administered by the "General" department, it would be a good method to credit all interest received upon the united funds of the company, apart of course from the Life funds, which are held under separate trust, to profit and loss account.

But if the management decides that the interest earned should be sub-divided in accordance with the funds of the different departments, it becomes practically necessary to effect that division upon the basis of the average rate of interest earned upon the whole of the investments of the company, as it would lead to great complications in the investment books if each fund had to be administered separately.

The *ideal* position to be attained by a prosperous insurance company is to invest all its surpluses in reliable securities so that the dividends payable to the shareholders will be provided from the interest thus earned. Should, of course, the trading profits amount to a sum far in excess of the requirements of a growing business, a division of such profits might be made either by way of increasing the capital of the shareholders or by distribution in the form of bonuses.

It may be pointed out that the trading profits of insurance companies are as a rule very much reduced by excessive competition, so that the uncertainty of a bonus distribution does not frequently become a prudent measure.

A fire insurance company to occupy a distinctly strong position has to allow its "fund" to grow until it is equivalent to a whole year's premium income, and before estimating any actual surplus at least 50 per cent. should be held in reserve as representing the liability under unexpired risks.

The debtor side in the revenue account in the Ledger consists of losses paid and outstanding at the closing period of the year after deducting therefrom the amounts recoverable under reinsurances (loss proportions).

A liberal estimate has to be made of the amount of losses outstanding, and should include every loss which has been announced up to the date of closing the books and for which a settlement has not been effected. These will appear in the balance sheet under that heading, and as they will in all probability be paid during the ensuing period the total estimate can be written back to the credit

of loss payments account on the re-opening of the books,—the debit to that account being actual cash payments which will include the whole of the previous outstandings.

Commission and Brokerage.

This is an item usually given separately in fire revenue accounts, as it is a test of the good working of business that commission should not be excessive.

Management Expenses may be furnished all together, although some companies prefer to mention separately the contributions to fire brigades, salvage corps and other similar charges which are compulsory on the basis of the risks accepted to which reference has previously been made.

The resultant balance of the revenue account, which must always be on the credit side in a successful business, is given in association with the capital and other funds of the company amongst its liabilities in the general balance sheet.

The assets including the amount of the departmental surplus funds deposited with the General department for investment after deducting the liabilities such as outstanding losses, unpaid commission, amounts due to other companies, etc., express the same balance as the revenue account.

When the company's books are finally closed for the year, the accountant of the "General" department has to bring these items into the "General" Ledger, crediting and debiting the fire department as may be necessary, and thus they will be found in the general balance sheet of the company under their proper headings.

CHAPTER VII.

THE MARINE ACCOUNTS.

BY R. MASTERS.

THE MARINE DEPARTMENT.

As with the other departments of the company, it is assumed that only home business will be transacted. The introduction of business in foreign and colonial countries would create complications in the method of account keeping, but it may be said with the exception of the necessary dovetailing of the separate parts into a final whole, that insurance companies transacting business abroad may keep their foreign records absolutely distinct from the home business of the company.

The initial transaction in connection with a marine policy consists of the issuing of a document to the assured or the broker who introduces the risk which is a memorandum of the amount underwritten, the premium being previously arranged, and the ordinary deduction of commission and brokerage. Fortunately for marine accounts the payment of commission in the manner pertaining to life, fire and accident insurances is practically abolished since it is the universal custom to deduct commission and brokerage at the outset, thus leaving the net premiums only to be dealt with in the company's books. A document called a slip is prepared, upon which brief particulars of the nature of the risk are given, viz : date and term of insurance, whether freight or hull and machinery, the sum assured and the premium, and from this the policy is written. These particulars are then recorded in a book called the Journal of which a ruling is here given :—

Date.		Name of Broker or Assured.	Description of Risk.	Ledger Folio.	Sum Assured.						Net Premium			Stamp Duty.			Total.		

The stamps on policies are paid by customers who consequently have to be debited therewith and a stamp account in the Chief Ledger credited.

From this Journal the customers' accounts are debited and at the close of each month statements are sent with a request for prompt payment on the 8th proximo. These monthly accounts are closed by the simple method of crediting the cash when received.

It may occasionally occur that a customer is entitled to a return of premium in consequence of a risk expiring before the term for which the policy was issued, and this return might be credited to the premium account. This course, however, presents some difficulties and it will be found in practice better to keep the returns on expired policies quite apart from the premiums payable monthly.

Dr. CASH BOOK. *Receipts.*

Date.	Particulars.	Month.	Ledger Folio.	Amount recoverable under Reinsurance.	Premiums.	Miscellaneous.	Bank.

Cr. CASH BOOK. *Payments.*

Date.	Cheque Number.	Particulars.	Voucher Number.	Ledger Folio.	Re-insurance Premiums Returns etc.	Claims.	Expenses of Management.	Miscellaneous.	Bank.

This Book need not be of a complicated nature—four or five columns on each side being sufficient to meet the requirements of the business. After the customary date and folio columns, should be entered the amounts recoverable under reinsurances, salvage and

any exceptional receipts, following which are the monthly premiums, the third column being used for miscellaneous receipts, and the final one for the daily total when lodged with the bank.

Some customers do not wait until the expiry of the month before paying their premiums, and in order to facilitate the monthly balancing of the premiums ledger these should be clearly marked in the Cash Book. At the close of each month a memorandum should be affixed to the totals of the " premiums received " column distinguishing between the current month and payments in advance. These payments in advance will be posted to the Ledger after the accounts for the current month have been balanced.

On the credit side are five columns, the first being utilized for the payment of reinsurances and returns of premiums; the second for claims; the third for expenses of management; whilst the fourth will contain miscellaneous payments and the last the total of the cheques drawn at each meeting of the Directors. At the close of each month the balance in the Cash Book should be agreed with the balance shown in the Bankers' Pass Book.

PETTY CASH BOOK.

Amounts received.			Date.		Particulars.	Voucher Number.	Ledger Folio.	Postage, Telegrams, etc.			Expenses of Management.			Claims and Returns.			Total.		

Columns for postage, telegrams, etc., and also for expenses of management require no comment. The third column for small claims or returns of premium implies that these amounts are too little to necessitate the drawings of cheques.

As described in connection with other departments, the totals from the Premium Journal will have to be debited in the Chief Ledger to a customers' account and credited to a premium account. The total receipts from the Cash Book will have to be credited to the Customers' accounts—the balance thus resulting consisting of premiums unpaid when the books are closed.

The totals of the cash payments will be debited to accounts to be opened in the Chief Ledger for claims, reinsurance premiums, expenses of management, etc., and an account opened also in the Chief Ledger for the bank, which will be debited with the monthly totals paid thereto and credited with the cheques drawn thereon, the balance being in agreement with that shown in the Cash Book. The monthly totals from the Petty Cash Book will be dealt with in a similar way by debiting postages, expenses of management, claims, etc., and crediting petty cash. This petty cash account will be debited by the cheques drawn periodically on the chief banking account and the balance will be in agreement with that shown as represented by the Petty Cash in hand.

CLAIMS.

There are various stages through which claims have to pass before the final settlement is made, but marine insurance being essentially conducted on the prompt payment system, the accountant does not concern himself with claims which are in process of adjustment. It will be found that for the purposes of bookkeeping a book should be opened which might be entitled "claims," including :—

Losses ;
Averages ;
Reinsurances ;
Return of premiums.

Reinsurances and returns may not be accurately denominated "claims," yet as they demand prompt payment it saves an increase in the number of the books in use to include them under one cover.

ADJUSTMENTS.

Date.		Particulars.	Under-writing Year.	Ledger Folio.	Losses.			Averages.			Re-insur-ances.			Returns of Premiums.			Total.		

At the meetings of the directors, which are usually held weekly, the underwriter presents a statement embodying the items to be entered in this book and cheques are drawn in accordance therewith, so that unless through some exceptional causes a payment is delayed, the above accounts, which should be opened in the Chief Ledger under the general heading of "claims," will be balanced periodically by the cash payments which will be debited thereto.

An ordinary Ledger should be opened in which should be found the details of every customer's account, so that the information may be forthcoming as to the amount which is paid to any individual or the amount which is handed to other companies by way of reinsurance.

AMOUNTS RECOVERED UNDER RE-INSURANCES.

Date.	Particulars.	Under-writing Year.	Ledger Folio.	Losses.	Averages.	Re-insurance Premiums repaid.	Total.

This, as its name implies, is the converse of the claims paid and should be entered up in association with the weekly settlements, the totals being debited to the proper accounts in the Chief Ledger and credited to the "amounts recoverable under reinsurances revenue" account.

Chief Journal.

This book, whose ruling is similar to that described under the heading of the General department, should be divided by a tab into two parts. The first part of the book is required for exceptional entries which do not readily find their way through the medium of the other books previously described, and for the transfer entries in the Chief Ledger from the accounts which have been debited or credited during the course of the year to the "revenue" account. The second part of this book will be required for the construction of underwriting accounts, by means of which

the premiums, claims, etc., are divided into the different years in which the risks have been underwritten, so that the net result of an underwriting year is finally arrived at. This method will be further described a little later on.

Chief Ledger.

This book is of the usual pattern which has already been amply commented upon, but as in the case of the Chief Journal it should also be divided into two sections by a tab, and for the same reasons.

In the first section of the Ledger will appear :—

A. Revenue Account ;
B. Premium Account ;
C. Stamp Account ;
D. Claims Account ;
E. Reinsurances ;
F. Management Expenses.

Then follow the accounts which represent

Bankers' Account ;
Petty Cash ;
Customers' Accounts ;

and any other accounts which the particular details of the business may require.

The premium account will be credited with the net premiums monthly, and the stamp account credited with the stamps recoverable. Customers' accounts will be debited with both these items, cash received being credited thereto, and the balance is the amount owing to the company at any given period.

The claims account will be debited from the Adjustment Journal previously described and the claims payable account credited with the totals. This latter account is debited with the cash payments, and should any balance be left it will be known that it is a claim which is still unsettled.

The transfers to the revenue consist of a credit from premiums account and a debit from expenses of management, claims, re-insurances and returns, and any payments of a special character such as underwriters' commission and other items.

INTEREST.—As described in connection with the fire department, the directors may decide to credit the marine department with interest on its funds which are deposited with the "General" department for investment, in which case an entry will be made, debiting the general department and crediting interest therewith. This interest will have to be transferred to the credit of the revenue account.

GENERAL DEPARTMENT.

An account must be opened in the Ledger for the transactions which take place between the "marine" and "general" departments for financial purposes, and assuming that the marine underwriting is of a profitable character, the funds deposited with the "general" will be found to accumulate accordingly.

Before closing the books for the purpose of the preparation of the revenue account to be incorporated in the company's published periodical accounts, an estimate will have to be prepared of claims which are known to have arisen, but which have not been settled; outstanding reinsurance premiums will also be noted, and these will appear as creditors and will have to be debited to the revenue account. The items of assets and liabilities outstanding on the Marine Ledger will in the manner described in the Fire department be incorporated in the General Ledger of the company and this taken in conjunction with the Marine department account in that General Ledger must bring out the balance remaining on the Revenue account.

No mention has been made of bills payable or receivable, as it is rarely the custom in marine business conducted within the limits of the British Isles to use these documents for the reason already given that settlements are effected upon a strict cash basis.

UNDERWRITING ACCOUNTS.

It will be remembered that the Chief Ledger and Chief Journal are divided into two sections, the first being utilized for the purposes of the balance sheets and revenue accounts, and the second reserved for the preparation of the underwriting accounts.

It may be generally assumed that marine accounts, as is the case in almost all insurance institutions, are closed on the 31st of December in each year, so that we may speak of the underwriting

of 1902 or 1903 and so on. The underwriters from almost the earliest times have been accustomed to review the results of their operations by ascertaining the outcome of the yearly undertaking.

The premiums are easily arrived at, as the last order accepted on the 31st December of each year closes the period, and although the cash for the premium may not actually have been received, yet it will fall under the heading of outstanding premiums and will be included in that year. In the underwriting sections of the Journal and Ledger it will only be necessary to make an entry as to the credit of the underwriting account for each year and debit an account opened and entitled Revenue account.

If interest on marine funds is to be taken as an underwriting item this necessarily follows a similar plan.

When we come to deal with losses, averages, reinsurances and returns, it will be necessary on making the current entries in the Claims or Adjustment Journal to mark against each item the year to which it belongs, following the year in which the premium was accepted. An analysis must be made at the close of these books and a Journal constructed debiting the open underwriting accounts and charging the revenue account with the totals. Salvages received, sometimes many years after a catastrophe at sea has occurred, will also have to be analyzed and dealt with in the same manner.

It will be seen that after these matters, making due provision for any exceptional items of receipt or expenditure, are properly attended to, there will be a series of accounts in the underwriting section of the Ledger showing precisely the progress that each underwriting year has made, and the total of these will be represented by an account which for convenience may be called "revenue," but which really is accumulation of underwriting profits.

The question of salvage arises frequently in a most unexpected way. To quote an instance; a Dutch galleon, laden with Spanish doubloons, met with disaster at sea not far from the entrance of the River Scheldt more than 100 years ago, and the wreckage was accidentally discovered within the past ten years, and after defraying the necessary expenses the surplus of the specie was divided amongst the representatives of the underwriters at Lloyd's who were interested in the ship so long previously. Thus it will be seen that if underwriting accounts were kept open indefinitely entries

thereto might become necessary very many years after those interested were no longer engaged in the business.

The general practice is to close underwriting accounts after the expiration of two years. In this way the underwriting account for 1901, which expired on the 31st December of that year, is kept open until the 31st December, 1903, at which time the balance is transferred to an account called "General underwriting account." The account for 1902 is closed at the 31st December, 1904, and also transferred. If in 1903 or 1904 there are transactions by way of additional claims or salvage or reinsurance items, these are usually charged to the current underwriting account of the year so as not to re-open those underwriting accounts which have been transferred to the general underwriting account.

The balancing of this section of the Ledger is found in the fact that the revenue account on the one hand presents a balance which must correspond with the credit balance to that account in the first section of the Ledger, and the General underwriting account, together with the Unclosed underwriting accounts, aggregate a balance of precisely the same amount. These underwriting accounts are not essentially a part of the mode of accounting in a marine department but are consistent with the transactions of the department and may be looked upon as exponents of the business.

It not infrequently happens that underwriters are encouraged by their directors to use their best efforts to gain profit by being granted in addition to their salaries a commission upon the profits they realize, and the underwriting accounts form an easy method of calculating the comission to which they are thus entitled.

CHAPTER VIII.

THE ACCIDENT DEPARTMENT.

BY R. MASTERS.

There are so many forms of insurance in modern use which are collected together and controlled by an accident department, that the business becomes of an exceptionally complicated character. The introduction of "Employers' Liability." or as it is now more usually known as "Workmen's Compensation," which is enforced by recent Acts of Parliament, is perhaps one of the most difficult sections of the business to deal with.

It may not be the proper place to give expression to an opinion as to the operations necessitated by such legislation, but it may be of interest to the reader to state that whereas protection to workmen from carelessness on the part of employers is a very justifiable precaution, on the other hand it is not impossible that advantage may be taken of privileges thus offered and the employees, feeling that if misfortune should be the result of the want of undue precaution on their part, may not exercise such care to avoid accidents as would under other circumstances be a natural instinct. It has also been observed that in some instances considerable sums are paid by way of compensation to those who have been unaccustomed to find themselves possessed of much ready money, and the result has not unfrequently been that of extravagance and abuse.

The actual foundation of so-called accident business is personal compensation, which first probably arose from the dangers incurred in the early days of travelling by railways, and this has been extended to dangers to individuals from every source, not merely including general travelling or special travelling, such as by motor cars or cycling, but with the desire to attract popularity nearly all companies offer compensation when the insured is attacked by zymotic or pestilential diseases, and sometimes organic diseases such as the appearance of a carbuncle. For the purpose of office statistics all these contingencies have to be fully analyzed.

Most offices also issue policies guaranteeing employers in respect of the fidelity of the employees. This is a welcome introduction,

as in the older days such guarantees of fidelity had usually to be obtained from personal friends and entailed undesirable obligations.

Precaution against damages or robberies, effected by burglars or thieves, of any description, is another section of the business.

There are also several minor forms against the contingencies of which policies are issued, such as vehicular insurances, general sickness, and special risks such as guaranteeing losses arising to merchants and others through bad debts or the failure to meet the due payment of interest or principal in connection with mortgages.

Some offices also insure against damage to plate glass which includes all forms of windows, but by looking through a list of the insurance offices contained in the numerous directories which are widely distributed it is found that "plate glass insurance" is frequently conducted by companies specially formed for this purpose.

It will thus be seen that an accident department must keep a complicated set of analytical books, but this need not be considered an essential part of account-keeping, since it is in reality a question of departmental management.

The subsidiary books of account, however, have to be specially divided into various descriptions or departments.

NEW POLICY REGISTER.

Date.		Name of Agent and Assured.	Policy Numbers.	When Renewable.	Ledger Folio	Personal Com-pensation.			Fidelity.			Workmen's Com-pensation.			Burglary.			Miscel-laneous.			Total.		

Workmen's compensation policies are generally effected under a system of annual payments falling due at the usual quarter days, but there are special arrangements whereby many of these fall under various months of the year. It is, therefore, desirable that the renewal registers should be prepared for monthly records.

The above ruling shows the principal divisions under which policies are issued by an accident department and the details should be posted direct to the debit of each individual account in

the Ledger, and the total premiums carried to the credit of new premiums account.

In connection with the miscellaneous column, which is provided for any class of insurance which is outside the four principal descriptions of risks, an analysis for the purposes of the office records should be made at the close of each month.

There does not seem any occasion to make further comment on this book, for, unless the business be of such magnitude to make it desirable to keep separate books of account for each section of risks, it will be found sufficient to allow the new policies to follow in sequence and to be recorded from the new policy register into the renewal registers so that they may not be overlooked when the period arrives to remind the insured that his protection will cease unless he pays the renewal premium.

RENEWALS.

RENEWALS (WORKMEN'S COMPENSATION).

These are annual, as already stated, but are liable to alterations by endorsements as the amount of premium varies in accordance with the amount of annual wages disbursed by the firm insured.

Month.

Date Renewable.	Agent and Assured.	Ledger Folio.	Original Sum Assured.	Renewable Sum Assured.	Original Premiums.	Renewable Premiums. *		1903.	1904.	Etc.

* This is subject to alteration, and a little space should be left between the lines for the purpose.

The agreed premium is entered under the year to which it belongs and if there are agents who bring many policies for a company's acceptance, it saves entries in the Ledger if at the end of every period at which policies fall due an analysis is made summarising the same with the headings of "insurances direct," followed by a list of agencies with the totals to be charged to each. These will have to be debited to the individual accounts in the Ledger and

the total credited to the "renewal premium" account.

Following the lines indicated in the Fire department, a form of agency renewal Register is appended.

AGENTS' RENEWAL REGISTER.

JOHN SMITH.

Month.....

Date Renewable.	Name of Assured.	Risk.	Register Folio.	Sum Assured.	Premiums.			
					1904.	1905.	Etc.	Etc.

The above ruling does not require any detailed explanation, it being seen that the agent, or if the business is direct, the firm. is debited in individual accounts opened in the Ledger, the total premium being carried in the ordinary course to the credit of the premium account.

The alterations which may be necessitated from time to time should always be made by endorsements, and an Endorsement Book, of which the ruling is given below should have "additional" and "return" premium columns; the details being posted to the individual accounts and the totals carried periodically to the premium accounts.

ENDORSEMENT BOOK.

Date.	Agent and Assured.	Particulars of Endorsement.	Ledger Folio.	Additional Premium.	Return Premium.

BURGLARY INSURANCES are renewable annually, and these should be treated in the same way as workmen's compensation insurances. Similar rulings, therefore, for the books dealing therewith may be

utilized. It is almost an invariable custom to make burglary renewal premiums payable on the usual quarter days in each year, and it is desirable that this course should be universally practised.

Personal Accidents.

The renewal premiums under this section may fall due at any date of the year, but for the purposes of book-keeping, they follow similar lines to life insurance premiums and are generally known as relating to some particular month; the books of account, therefore, are prepared in monthly form, and it is expected that agents will render monthly accounts accompanied by their remittances after deducting commission and any small out-of-pocket expenses.

The ruling for the renewal registers of this class of business is almost identical with that of life department premiums.

Month .....

Date when due.		Agent and Assured.	Sum Assured.	Original Premiums.			Endorsement Book Folio.	Increased Premiums.			Decreased Premiums.			1903				1904.				Etc.		

For the exceptional policies which may be issued, it is desirable to have another renewal register apart entirely from the principal registers for the Workmen's compensation, fidelity, burglary and personal accidents, the same ruling being here applicable.

CASH BOOK. *Receipts.*

Date.		Particulars	Month.	Policy Numbers.	Ledger Folio.	Direct Premiums.				Branch and Agency Remittances.				Miscellaneous.				Bank.			

CASH BOOK. *Payments.*

Date.		Cheque Number	Particulars.	Voucher Number	Ledger Folio.	Claims.			Com-mission.			Expenses of Manage-ment.			Refunds.			Miscel-laneous.			Bank.		

This book shows the usual distinction which has been effected in other departments of the company as to premiums direct, branch and agency remittances, miscellaneous receipts and dealings with the bank.

In connection with the branch and agency remittances, if the business is an increasing one it will be found of advantage to have a remittance book in which the daily amounts received are recorded and the totals to be paid to the bank entered in the Chief Cash Book in one sum following the principles laid down in the exposition dealing with the fire department.

PAYMENTS.—Following the same method as that advocated in relation to the fire department, distinct advantage will be derived by using the first column, which is headed "claims," so that it shall contain the whole of the payments which arise under the general heading. These payments will have to be ultimately agreed with the Claims Payments Book, where the different accounts of risks are classified. Where claims in cases of emergency have to be paid either by agents or branches locally, for the purposes of book-keeping it will be desirable that they should be refunded from the head office by cheques drawn for the purpose in order that this column may be the one chief source of reference in compiling the annual accounts.

Commission, management expenses, refunds to agents and assured and miscellaneous columns have been so fully described in previous pages that reiteration here would become wearisome to the reader.

Debit and Credit Journals.

DEBIT JOURNAL.

Date.		Agent or Assured.	Ledger Folio.	Personal Compensation.			Fidelity.			Workmen's Compensation.			Burglary.			Miscellaneous.			Total.		

The ruling of this book shows the classification of the business, following the new and renewal registers, and it is sufficient to post to the individual branch or agency accounts in the Ledger the total of each month.

As a very large section of accident insurance is of a monthly character, it is desirable to encourage monthly settlements, and whether premiums are quarterly or annual, they will be included in the particular month under which they become due. Agents must be allowed a certain extent of time in which to collect their premiums and prepare their accounts, and it is found not unreasonable to make the arrangement that the account for January shall be settled by the 15th March, since in many cases, pursuant to the custom adopted in respect of fire and life premiums days of grace are allowed to the insured during which they can decide whether to renew their policies or allow them to lapse.

With reference to new premiums, it is preferable to have each one posted to the proper account in the branch and agency Ledger, and, therefore, at the close of each month in the Debit Journal it is not necessary to repeat their entry in detail, but an entry of the totals is sufficient under the proper sections of the business. The same remark is applicable to additional premiums charged from the Endorsement Book. As each endorsement can be posted to the Ledger direct therefrom and the preparation of the Monthly accounts to be abstracted from the Ledger and rendered to agents is facilitated thereby.

CREDIT JOURNAL.

Date.		Agent or Assured.	Ledger Folio.	Commission.			Expenses.			Miscellaneous.			Total.		

This book is entered up from day to day as accounts are received from branches or agents. Reasonable precaution must necessarily be taken to see that only the agreed amount of commission is deducted by agents and that the charges they may make for out-of-pocket expenses are in keeping with the volume of business they transact.

The totals of the Cancelment Book and the return premiums from the Endorsement Book only are entered,—the details being posted to the Ledger from those books respectively.

CANCELMENT BOOK.

Date.		Agent or Assured.	Ledger Folio.	Number of Policy.					Premiums.			Total Premiums.			Returns on altered Policies.			Numbers of Policies re-arranged.						Totals.			New Policy Folio.	Renewed Register Folio.

This must be entered up daily, and as the book would become of a complicated character if all the sections of the business were provided for, it is found more practicable to analyze this book monthly and carry the analysis in totals to the Credit Journal, details being posted to the credit of the branches and agents direct from the Cancelment Book.

Branch and Agency Ledger.

There is no special form necessary for this book, but in daily operation the debits should be divided according to each month of the year of which an illustration is given below.

JOHN SMITH.

Dr. *Cr.*

1904.							1904.						
						January, 1904.							
Jan.	1	To Premiums,	12	20	0	0	Feb.	28	By Cash,	21	17	0	0
									„ Commission,	19	3	0	0
						February, 1904.							
Feb.	1	„ Premiums,		15	0	0	Apr.	21	By Cash,		8	0	0
									„ Commission,		1	0	0
									„ Returned Premiums,		2	0	0
									„ Balance down,		4	0	0
						March, 1904.							
Mar.	1	„ Premiums,		25	0	0	Mar.	1	By Cash,		2	0	0
							„	20	„ „		15	0	0
		„ Balance from February,		4	0	0	„	31	„ Commission,		3	0	0
							Apr.	29	„ Returns,		5	0	0
									„ Balance from Feb. to April,		4	0	0
		To Balance from February,				*April, 1904.* 4 0 0							

Agents do not always pay with that promptitude which an office might wish, and therefore two or three months' accounts become mixed together, but when a settlement is effected any outstanding premiums which may through various causes be held over for reconsideration should be brought down into the current month, and thus enable the accountant on reference to an individual account in the Ledger to see immediately how far a settlement has been effected and what the details are of the outstandings yet to be accounted for.

CHIEF JOURNAL.

This is a book which should be used as little as possible, as has been mentioned in treating of the other departments, but it is necessary for the closing entries and transfers from one account to another. One of the most important of the closing entries is that of making due provision for outstanding or unsettled claims. It is more difficult to ascertain the amount to be provided for outstandings in an accident business than in either life, fire or marine. The workmen's compensation in many cases resolves itself into the form of an annuity payment of which the duration is unknown. If it were always possible to effect a settlement of these claims by a capital payment, the liability could far more readily be arrived at, but in all cases it is of the greatest importance that a very full provision should be made to represent claims outstanding.

CHIEF LEDGER.

No special ruling is required for this book, and the accounts therein follow the usual course described in connection with the life and fire departments. When the premiums, claims, commission, management expenses and other details are transferred to the revenue account, the resultant balance is the Accident Fund.

The "General Department" Account in the Accident Chief Ledger records the transfers of surplus funds for Investment and withdrawals as may be necessitated from time to time and any other inter-departmental transactions. The balance of this account must agree with the corresponding "Accident" Account in the "General" Ledger.

The Revenue Account is at the close of the year submitted to the General Department, together with a statement of Branch and Agency Balances, Bank and Cash Balances, and any other assets on the Books of the Department. A further statement is submitted of outstanding liabilities, such as claims, commission, etc. When in the Books of the General Department effect has been given to these outstandings and the "Accident" Account debited and credited therewith, the Balance is the same amount as that of the Revenue Account or "Accident" Fund. These Assets and Liabilities are embodied in the Balance Sheet of the

Company in conjunction with those of the Fire and Marine Departments. The Accident Fund is found in the Balance Sheet amongst the liabilities following capital, etc.

CONCLUSION.

The reader may have gathered during the perusal of the preceding pages that a complex company must have a head centre in which all its transactions will ultimately be concentrated. This at the outset has been described as the "General" department. During the course of each financial year each separate department (excepting the "Life") transfers thereto its surplus funds for the purposes of investment, and if claims or expenses of any magnitude arise which are greater than the available cash balances of the Department will satisfy, it follows that the General department has to provide the other departments with sufficient means to meet their obligations.

It is assumed throughout this treatise that the business of the various departments is conducted on a profitable basis and the funds of the company as an aggregate concern are increasing year by year. The method of dealing with the investment of these funds has already been described.

At the close of the financial year each department furnishes the "general" with its revenue account and its outstanding assets and liabilities. These statements are journalized in the chief books of the company, and the departmental accounts are credited with their assets, which *per contra* are debited to their proper designations in the Chief Ledger. The liabilities are treated conversely, so that when the balance sheet of the company is prepared, being the summarised totals of the numerous accounts which are opened in the Chief Ledger, on the asset side of the balance sheet are found the whole of the company's investments, with the outstanding agents' and branch balances not liquidated at the period of closing the books, together with cash at Bankers and balances in hand.

The liability side of the balance sheet exhibits in the first instance the capital subscribed by shareholders, then the funds of each of the departments, which are the surpluses shown on their revenue accounts, after which follow outstanding claims, commission and

amounts due to other companies, or special liabilities of any description.

As in accordance with the Acts of Parliament life insurance departments must publish separate revenue and balance sheets, apart from the general operations of the company as a corporate body, the simplest way of introducing these figures in the balance sheet of the company as a whole is to place on the asset side the total of the life balance sheet and a corresponding figure on the liability side.

Reference has previously been made as to the treatment of interest. If the management decides to allow the various departments to take credit for interest on their respective funds, the amount which remains so undivided is the interest earned on the capital of the company and on any reserve fund it may possess and undivided profits. This item makes its appearance in the profit and loss account.

It is usual when the books are closed to transfer from each of the trading departments such a surplus as their funds may permit, having fully taken into consideration the normal liability under the unexpired risks. This, of course, does not apply to the life department for reasons which have already been stated as it is only at its periodical (usually quinquennial) valuations that shareholders participate in the surplus.

Out of the credit to profit and loss thus derived from interest and transfers of surpluses from other departments the imperial charges have to be deducted such as directors' fees, income tax on profits, expenditure on premises and such expenditure as cannot be allocated to any separate department.

The directors are then able to decide what dividend they can declare as payable to shareholders.

After the balance sheet has been submitted to the shareholders at their annual meeting and approved by them, signed copies by the chairman of the company and the chiefs of the departments must be deposited at the offices of the Board of Trade and are afterwards officially published in an annual bluebook.

It is recommended to the reader that a careful study of the Published Accounts of the leading Insurance Companies whose transactions extend to more than one section of the business will enable him to appreciate the efforts made in this treatise to

practically show how the figures are obtained and the whole blended into a harmonious total.

In endeavouring to place before the reader a lucid though necessarily abbreviated indication of the method to be adopted in dealing with a complicated set of accounts, which must pertain to an insurance company doing a complex business, it is hoped that the preceding pages may prove of considerable service, but it will be readily appreciated that, in connection with a business, which must, to prove successful, be expansive and ultimately attain a great magnitude, it is impracticable to give in complete detail directions in every particular with a view to meeting all emergencies which may arise. As the business is developed, so the accountant, who is responsible for the accuracy of the figures upon which the directors, shareholders and officers, together with the general public place their confidence in the undertaking, must exercise his individual judgment and discretion.

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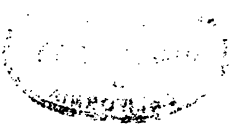

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